

Breakthrough
Britain

Outcome- Based Government

How to improve spending decisions across government

A Policy Report from the
Social Return on Investment Working Group

Chaired by Dr Stephen Brien

January 2011

THE CENTRE FOR
SOCIAL
JUSTICE

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About the Centre for Social Justice

The Centre for Social Justice (CSJ) aims to put social justice at the heart of British politics.

Our policy development is rooted in the wisdom of those working to tackle Britain's deepest social problems and the experience of those whose lives have been affected by poverty. Our working groups are non-partisan, comprising prominent academics, practitioners and policy makers who have expertise in the relevant fields. We consult nationally and internationally, especially with charities and social enterprises, who are the champions of the welfare society.

In addition to policy development, the CSJ has built an alliance of poverty fighting organisations that reverse social breakdown and transform communities.

We believe that the surest way the Government can reverse social breakdown and poverty is to enable such individuals, communities and voluntary groups to help themselves.

The CSJ was founded by Iain Duncan Smith in 2004, as the fulfilment of a promise made to Janice Dobbie, whose son had recently died from a drug overdose just after he was released from prison.

Executive Director: Gavin Poole

Breakthrough Britain: Outcome-Based Government

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Contents

Preface	6
Chairman's Foreword	8
Members of the Social Return on Investment Working Group	12
Executive Summary	15
 Chapter 1: Introduction	 43
1.1 Background	43
1.2 The challenge	44
1.3 Scope of this report	46
1.3.1 Objectives	47
1.3.2 Productivity	47
1.3.3 Decision-Making	48
1.3.4 Delivery and Evaluation	48
1.3.5 Institutions	48
1.3.6 Approach	48
1.4 The problem	49
1.4.1 Objectives are unclear and often not prioritised	50
1.4.2 A robust understanding of productivity is not used systematically to underpin decisions	50
1.4.3 Decision-making processes are not effectively enforced	51
1.4.4 Delivery and evaluation is inconsistent	51
1.4.5 Capabilities and organisational structures are inadequate	52
1.5 The opportunity	52
1.6 Structure of this report	55
 Chapter 2: Objectives	
2.1 Introduction: Clarify objectives	57
2.2 How objectives have been defined	59
2.2.1 Objective setting in the past	60
2.2.2 Objective setting under the Coalition Government	61

2.3	Weaknesses of the past and current systems	62
2.3.1	<i>Outcomes are confused with outputs, or with delivering reform</i>	62
2.3.2	<i>No mechanism to prioritise objectives</i>	64
2.3.3	<i>Inappropriate Indicators</i>	66
2.3.4	<i>Too many indicators and targets</i>	68
2.4	Recommendations	69
2.5	Conclusion	76
	Appendix 1	77
Chapter 3: Productivity		81
3.1	Introduction: Systematically measure productivity	81
3.2	Understanding productivity today	82
3.3	Problems with the current system	83
3.3.1	<i>Inadequate cost information</i>	83
3.3.2	<i>Poor understanding of the causal link between outputs and outcomes</i>	84
3.3.3	<i>Government fails to appreciate the full value of outcomes</i>	86
3.3.4	<i>Insufficient understanding of productivity to inform decisions</i>	87
3.4	Recommendations	88
3.5	Conclusion	92
Chapter 4: Decision-Making		94
4.1	Introduction: More rigour in decision-making	94
4.2	Current decision-making process	95
4.2.1	<i>The Spending Review process</i>	95
4.2.2	<i>Decision-making in departments and local authorities</i>	96
4.2.3	<i>The business case and Impact Assessment process and the Green Book</i>	97
4.2.4	<i>Commissioning and procurement</i>	98
4.3	Weaknesses in the current system	98
4.3.1	<i>The Green Book process is underused</i>	98
4.3.2	<i>Evidence is overshadowed by political priorities</i>	101
4.3.3	<i>Incentives are not aligned to value for money</i>	101
4.4	Recommendations	104
4.5	Conclusion	106

Chapter 5: Delivery and Evaluation	107
5.1 Introduction: Improve delivery and evaluation	107
5.2 Current approach	107
5.3 Weaknesses of the current system	109
5.3.1 <i>Poor delivery capability</i>	109
5.3.2 <i>Inconsistent management of the delivery of public services</i>	110
5.3.3 <i>Internal assessment is ineffective</i>	111
5.3.4 <i>The NAO is not setup to monitor policy effectiveness</i>	112
5.4 Recommendations	113
5.5 Conclusion	114
Chapter 6: Institutions and Capabilities	115
6.1 Introduction: Strengthen institutions, culture and capabilities	115
6.2 How things work today	116
6.3 Weaknesses in the current system	117
6.3.1 <i>Departmental capabilities need to be improved</i>	117
6.3.2 <i>Departmental culture does not adequately support challenge</i>	119
6.3.3 <i>Interactions between departments and the Treasury are problematic</i>	120
6.4 Recommendations	120
6.5 Conclusion	125
Chapter 7: Conclusion: Outcome-Based Government	126
Bibliography	129

Preface

The Centre for Social Justice (CSJ) exists to find solutions to the social breakdown and poverty prevalent in too many of Britain's communities. This poverty and breakdown remains fuelled by five common characteristics or 'pathways to poverty'. They are: family breakdown; educational failure; intergenerational worklessness; severe personal debt and addiction. Any Government that is serious about transforming disadvantaged communities, and the lives of people living within them, should confront such factors alongside efforts to increase the income of those living in financial poverty.

In recognising this, and in undertaking significant policy development work to find evidence-based solutions, the CSJ has all too routinely observed a fatal failure at the heart of government spending decisions. Despite honourable intentions and mass investment, this failure has manifested through regular under-investment in preventative programmes and early intervention strategies with proven track records of changing lives, or through poorly designed care and support packages for those in need of help. Whether for example, as highlighted by this report, this has taken the form of ill-informed investment in drug treatment programmes or short-sighted targets in welfare to work initiatives, the unavoidable conclusion is that a haphazard 'hope for the best' approach has prevailed for too long. Maintaining such an approach would continue to fail both the people these spending decisions seek to help, and the taxpayer. Given today's economic climate, this would be both irresponsible and unsustainable.

In commissioning this review, therefore, the CSJ sought to develop a new approach to public spending – one that would initiate clearer strategic Government and expertly targeted investment in what works. From the outset we became familiar with the pioneering work being led in the United States, by the Washington State Institute for Public Policy (WSIPP). The model developed by the team in Washington State has transformed the way in which the State's legislature makes policy, and informs decision-makers about the outcomes a proposed programme would generate. This has led to much more targeted and effective spending in areas like criminal justice, addiction and child welfare. My thanks go to Steve Aos and his team for sharing their best practice and shaping our work.

As demonstrated by the mass policy work undertaken by the CSJ, by the work of the WSIPP, and through the findings contained in this report, the root cause of our disjointed and ill-informed spending processes has been a failure – of successive Governments – to ask fundamental questions about how to

improve the way taxpayers' money is spent on social programmes and what outcomes are desired.

This report marks an important opportunity to set a new course. Based on research and original evidence-gathering with a range of senior civil servants, local authority councillors, directors of charities and social enterprises, and a wide array of domestic and international experts, we have set out a brave agenda for change in five key areas. 18 robust recommendations across these areas call for a new clarity of social objectives – focused on outcomes not simply outputs – which government and all involved in the delivery of public services should work to. We outline proposals for improving the systematic measurement of productivity to ensure new accountability across departments. Our reforms would lead to more rigour in decision-making – based on productivity not just activity – and improved delivery, as well as impact evaluation to ensure we learn the lessons of previous reform efforts. We also call for the strengthening of institutions, culture and capabilities within Whitehall – including through the establishment of an Office for Spending Effectiveness. These bold and necessary proposals are applicable to all levels and teams within government. They would provide the right framework for better and more cost-effective social outcomes. They would maximise social value.

In publishing this report my thanks go once again to Dr Stephen Brien, who has led the review with his usual dedication and expertise. I am also grateful to Toby Eccles, Scott Greenhalgh, Nick Harrison, Tom Jackson, and Corin Taylor for their invaluable contribution as members of the Working Group, and David Emes, for his excellent input throughout the process. They have been well supported by the CSJ research team.

Our hope is that their endeavour will spark the urgent change that is required. For too long decision-makers in Whitehall, and the system they operate within, have missed significant opportunities to invest wisely and deliver truly valued social reform. It is essential that the Coalition breaks from this historical failure and leads an outcome-based government, clear in its social goals and meticulous about tailoring expenditure to achieve them. It should be apparent to readers of this report that such change is more important and necessary than ever before.

Gavin Poole

Executive Director, the Centre for Social Justice

Chairman's Foreword

Over a number of decades, it has been easy for the critics of government to point to examples of wasteful spending. Similarly, governments have become adept at justifying their policies based on the outcomes, or more commonly the activities, that were achieved, rather than those expected from given expenditure.

The aim of *Outcome-Based Government* is to reverse this trend, by giving leaders a better game plan for government. Government must first explain that it is worth spending public money in the pursuit of a given outcome, and second convince the public that it is able to spend that money wisely and achieve the intended outcomes. The benefit for government is that it will be judged on the things that matter – reducing crime, improving health and education – rather than the roll-out of an IT system or a specific project.

The problem in government has not been the lack of a long-term vision of social outcomes, but an inability to articulate these outcomes in way that is clearly actionable by others. It is clear in my experience of the private sector that strong companies have a clear sense of the objectives they are trying to achieve, and strong capabilities in developing the evidence required to justify specific decisions. This is not to be interpreted as a move toward a technocracy – the best organisations are not run by their finance departments.

In Britain, and around the world, governments are cutting spending to address deficits. We argue that it is possible to minimise the impact of the necessary cuts in public spending – and that it is possible to deliver more for less. There is clearly a need to use this process to drive a step change in the effectiveness and efficiency of government spending: this is the only way in which core services can be maintained and improved.

We see three transformative actions which we believe can help to solve the evergreen problems of government, many of which stem from the diagnosis identified in this report:

- Establishing clear goals for the outcomes that the different arms of the government machinery should be working together towards
- Controlling and making best use of limited budgets in both strong and weak economic periods
- Improving the cost-effectiveness of government to deliver better public services while reducing taxes

1. Articulate and put a value on the most important outcomes the government is trying to deliver.

Clearly articulated outcomes will help to focus government on its most important objectives, align different government agencies in the pursuit of shared objectives and make government more accountable. Understanding the fiscal, economic, and importantly, the social value of outcomes – another person into work or a crime prevented – will enable us to fully appreciate what they are worth, increasing the focus on those that are most important, but today are too often ignored.

Whatever your view about where the State should spend money, any decision to do so should be based on a clear view of the desired outcomes for that spending – otherwise there is no justification for doing so.

2. Use consistent and valued outcomes, to step change the effectiveness of government spending.

There is much talk of improving the *efficiency* of government delivery (i.e. achieving current outcomes for less cost) – and this clearly needs to be done. However, we see a much bigger prize: improving the effectiveness of spending, by focusing activity on those outcomes which are most valued.

The rhetoric around public spending continues to focus on government activity. The focus needs to shift toward what that activity is intended to achieve – better outcomes for society.

3. Use the valued outcomes to open up delivery of government commissioned activity to companies and the voluntary sector.

Once we are clear about the value we place on outcomes, we can be clear about what we are prepared to spend to deliver them. This should enable government to commission delivery from companies or charities with confidence. In some areas, we will find that non-government delivery is more efficient, in others it may not be. More importantly, this change will dramatically increase the amount of *innovation* in the delivery of outcomes. Over time, this should significantly increase the efficiency of how government delivers for the nation.

It may appear that the government is a long way from reaching these goals, but this is not the case.

The Public Service Agreements (PSAs) introduced by the last Government made an attempt to articulate its priorities in the form of outcomes, and the 2007 PSAs were much improved compared to the original set a decade earlier. However, they continued to confuse the key objectives of government with second order objectives or operational delivery. Once the Coalition Government's structural reforms have been achieved they will need to create another, more permanent framework for the delivery of social outcomes. It is encouraging to see that the departmental business plans appear to have taken

outcomes as their starting point – but more systematic definitions of outcomes are needed, if the public is to hold the Government to account. We encourage policy-makers to look at the independently produced ‘State of the USA’ health outcomes and indicators as an example of international best practice.

Other organisations have used the approach outlined in this report to influence policy and improve spending decisions. The Washington State Institute for Public Policy has led excellent work on social policy in the United States, and the Social Research Unit at Dartington has similar aspirations in the UK. The Government should embrace these and other rigorous approaches outlined in our report to build a better framework and capability for effective policy assessment in the UK.

We need clear outcomes in order to be able to understand what works, but we also need accurate and useful data and evidence. The government has the capacity to collect significant amounts of information which can be used to build an understanding of the productivity of different interventions. This data needs to be shared, analysed and communicated more effectively in order to understand true causality, and hence influence decisions.

Support and scrutiny from an independent body will improve analytical capabilities as well as the quality of research and information collection within departments and local authorities. Independent and objective scrutiny can be used to support decision-making at the pace at which these decisions need to be made in policy. These independent assessments, made publicly accessible, will hold governments to account for delivery. We have seen how a similarly focused, small and independent body – the Office for Budget Responsibility – has improved fiscal management at a macroeconomic level across government. Surely we should apply the same level of microeconomic scrutiny to understand what these funds are specifically delivering?

Any government that is serious about staying in power, and more importantly delivering social reform in these coming years will need to learn how to deliver more for less. I believe this report offers a strategy for improving outcomes – by focusing on the effectiveness of policy. As challenging as tackling the deficit is, it provides a once in a generation opportunity to change the focus of government onto outcomes and cost-effectiveness.

A reappraisal of the assumptions and systems that determine our public spending would give much-needed challenge to the necessary fiscal consolidation. It will allow us to increase the effectiveness of spending at a time when we have less with which to deliver more.

In conclusion, I would like to extend my thanks to the members of the Working Group whose insight, commitment, and challenge have contributed so much to the completion of this report. I would also like to thank all the experts, from academia, business, government and voluntary organisations who worked with us to produce this report. I am very grateful to CSJ for

offering me the opportunity to chair this review, and to my colleagues at Oliver Wyman for their ongoing support and encouragement.

I would also like to thank those who helped prepare and edit the report – Gabriel Doctor, Kumaran Adithyan, David Emes, Artemis Seaford and Jacob Shepherd. In particular I would like to thank Deven Ghelani for his spirited work in preparing many drafts and ensuring the quality of the final report.

I hope that both the analysis and the proposals contained in this report will stimulate debate, and encourage new ways of thinking about how to tackle a perennial challenge for government.

Dr Stephen Brien

Working Group Chairman

Members of the Social Return on Investment Working Group



Dr Stephen Brien (Working Group Chairman) is a partner and former head of the London office of Oliver Wyman. He is a member of the board of directors of the Centre for Social Justice. He was a contributor to the CSJ's foundation report *Breakdown Britain*, and since then has chaired the CSJ's Economic Dependency Working Group publishing *Breakthrough Britain* and *Dynamic Benefits*. He has also written on Benefits and Taxation for IPPR and Demos. Most recently he has been on secondment to the DWP to support the development of Universal Credit.



Toby Eccles founded Social Finance and has been working on the Social Investment Bank since 2005 when he joined the Commission on Unclaimed Assets. Prior to working for the Commission, he was Director of Research at ARK, a child focused charitable foundation. At ARK he developed programmes around education in the UK, and programmes for communities with high levels of HIV/AIDS in South Africa. In the commercial world Toby worked in corporate finance at UBS Warburg, and built a next generation internet protocols business for Data Connection, a leading UK software company. He has taken non-executive and investor roles in two technology related start-ups, and is a non-executive director of Antidote, a charity developing emotional intelligence in schools, and a regional board member of the Guinness Trust, a housing association. Toby holds a BA in Maths from Oxford University.



Scott Greenhalgh is a private equity investor. He has a number of non-executive roles in both the commercial and charitable sectors, including with CPL Industries, the German private equity fund Capcellence, and the charity Pilotlight. He is a former Managing Director of Vision Capital and Partner of Alchemy. Prior to this he was a Director of the merchant bank Samuel Montagu.



Nick Harrison is a Senior Partner and Head of the London Office of Oliver Wyman. His commercial work focuses on leading large scale transformations in consumer-facing industries. Key components of this include understanding how consumers value and respond to different incentives and situations, and designing and aligning organisations to deliver against these consumer priorities, ultimately enabling businesses to deliver 'more for less'. Many of these approaches and experiences have been reflected in the thinking within this report. Nick is a scientist by training, and holds a Degree and PhD in Physics from Cambridge University.



Tom Jackson is the Chief Executive of Resurgo Trust, a charity working with unemployed young people in London. A former lawyer, he has spent the last ten years initiating and managing various local social enterprises. He is a co-founder of the Centre for Social Justice and was a member and secretary to the Griffiths Commission on Personal Debt in 2005 and 2008.



Gavin Poole, Executive Director, The Centre for Social Justice. Gavin joined the CSJ having completed 23 years of military service in the Royal Air Force where his final appointment was as a Ministerial Private Secretary within the MoD. Gavin has commanded at squadron and wing level in times of peace and during operations and has experience of global operations both on land and at sea. He brings experience in strategic planning, organisational reform, change management and implementation of policy. Academically he holds a BEng(Hons) and an MBA from Cranfield and gained an MA in War Studies from KCL during his year at the Joint Command and Staff College which prepares senior leaders from across 50 countries.



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The CSJ and Oliver Wyman would also like to thank David Emes, Artemis Seaford and Jacob Shepherd for their contributions to this report.

Executive Summary

Introduction

A core aim of government is to improve social outcomes; yet for most government expenditure the real impact of improved outcomes (i.e. their value) is rarely considered or even understood.

The past few decades have seen a relentless increase in public expenditure: billions of pounds have been spent on public services such as education, welfare, social services, health, and programmes intended to address the causes of social breakdown. But in many cases, it remains unclear how effective this spending has been.

Recent governments have also placed more emphasis on the management and monitoring of public services, but it is not obvious that this has delivered better value for money – because the true effectiveness of most policies is still poorly understood. If government cannot determine where public spending delivers results and where it does not, both the taxpayer and society as a whole will continue paying for ineffective and inefficient programmes.

Improving life outcomes should be the ultimate goal of a government's social policy: if policy makers can better identify failing initiatives, and shift spending toward programmes that effectively deliver sustainable, long-term outcomes, the social and financial returns to society and the public sector will be very great indeed. Yet in its work developing policy solutions to tackle the causes of poverty, the CSJ has seen that policy makers and civil servants are often slow to recognise social value and the interconnected nature of social breakdown in their spending decisions. We cannot afford any more of this waste and misdirection. A different approach is required.

Recently, a new approach to public spending has been gathering momentum both within the UK and abroad: so-called 'evidence-based policy making' has been adopted by a number of government bodies and non-governmental organisations. The (closely-related) 'Social Return on Investment' (SROI) approach is being applied across a steadily increasing proportion of the voluntary sector in Britain, demonstrating to funders a more rigorous approach to performance management while attempting to capture the social

“The Government spends £1.2 billion a year on measures aimed at tackling problem drug use, yet does not know what overall effect this spending is having.”¹

Public Accounts Committee

1 PAC, *Tackling problem drug use*, March 2010, p.5

and environmental impacts of public spending. The current Government has also underlined its commitment to measuring social value (non-financial outcomes) by announcing the introduction of an index to measure wellbeing over the course of this parliament.

In the United States, the Washington State Institute for Public Policy (WSIPP) is a notable example of a similar philosophy: it is an independent organisation that evaluates policies based on the outcomes they are expected to deliver to society, and whose recommendations inform the state government's policy decisions.

The common aim of these approaches is to maximise the value of the social and economic outcomes produced by a given level of expenditure. They are based upon clear definitions of the desired outcomes and their value to society, coupled with the tools to enable timely and accurate measurement of outcomes and costs. The most effective of these institutions have the integrity and influence to change the spending decisions of government.

VALUING OUTCOMES: HOW IMPORTANT IS IT TO ACHIEVE A PARTICULAR RESULT?

The government cannot avoid placing monetary values on different policy outcomes: but these values are often *implicit*, and are rarely debated openly.

We argue that government needs a systematic and consistent method of valuing outcomes, in order to prioritise between them and guide consistent decision-making across departments. We propose breaking outcomes into three categories:

- **Fiscal value** includes the cost of implementing a programme as well as the savings accruing to government departments through improved outcomes;
- **Economic value** records all financially measurable costs and savings to individuals as a result of improved outcomes;
- **Social value** is an umbrella term to recognise that social outcomes such as improved health, stronger relationships, a better environment (and others) have a value to society.

Understanding the fiscal, economic and social value of outcomes as described above will help us to truly maximise value for money.

Allocating funds to programmes on the basis of their effectiveness is not simply a question of financial responsibility. Outcome-based government means focusing on those initiatives that genuinely change people's lives: more often than not, tackling root causes rather than simply treating symptoms. Spending is most worthwhile, for example, when it ensures addicts are freed from their addiction, no longer committing crime to fund their habit, and gainfully employed; when it ensures prisoners are rehabilitated so that they do not re-offend, but instead contribute to society; and when vulnerable families are guided and supported to ensure that children grow up stable, and able to

fulfil their potential. Changing life outcomes can improve the lives of individuals and their communities, resulting in savings to taxpayers.

In this report we describe ways government can extend the principles of evidence-based policy making and improve resource allocation. This is, in our view, the key to maximising the true value of government spending – including both monetary and non-monetary value – and thereby minimising the social cost of fiscal consolidation, increasing transparency and accountability.

This is not about ‘managing by numbers’ – government cannot be run as a technocracy. But with increased clarity over the outcomes it wants to achieve, greater rigour in the measurement of success or failure, bold reform of the institutions that make spending decisions, and more effective implementation by practitioners, the Government can make substantial improvements in public service delivery.

CASE STUDY: BAC O’Connor²

Barry began using alcohol and drugs at a young age, and became involved in criminal activity, resulting in over twelve years spent in prison. As a result of his drug misuse he also received state help for medical care and benefits. Barry’s life changed after entering the Burton Addition Centre (BAC) abstinence rehabilitation and re-integration programme in 2009. He is now in a work readiness programme, living independently, helping to support his elderly mother and is working as a Recovery Champion, motivating other dependent drug and alcohol users to believe that recovery is possible. Barry says that he is proof of what a “successful and meaningful” outcome is.

The current cost of addiction to the Government and society is huge. Those with drug and alcohol problems collectively cost billions per annum in health services, police time and benefits. In addition, these individuals are not able to contribute meaningfully in terms of work or support for their families and the wider community.

Recovery interventions that focus on life transformation however, can result not only in an individual becoming an asset to society, but can also reduce the amount of money spent on them.

Are we able to accurately identify which of these interventions are most effective, and for whom?

Diagnosis

This report reviews how spending decisions are made today, with particular emphasis on areas where the process appears to be ineffective. Our objective is not to identify one-off spending decisions that should with hindsight have been made differently, but to identify and propose solutions to systemic weaknesses in the current decision-making process.

The Government has a number of governance processes and institutions in place to ensure that effective decisions are made. Many of these institutions are recognised as world class; in particular the National Institute for Clinical Effectiveness (NICE), the National Audit Office (NAO) and the Public Accounts Committee (PAC) are examples of good practice. However, across government we identified many apparent failings in the way spending decisions are made.

² Centre for Social Justice and Recovery Group UK, *A radical vision for recovery: Reforming the drug and alcohol treatment system*, June 2010, p.7 (unpublished)

Our evidence comes in large part from reports produced by the bodies that are mandated to monitor the performance of departments such as the NAO and the PAC, as well as from interviews with senior civil servants, policy makers and others involved in the delivery of public services. The systemic failings are summarised under the following headings:

1. *Objectives are often unclear and not prioritised.*
2. *A robust understanding of productivity is not used systematically to underpin decisions.*
3. *Decision-making processes are not effectively enforced.*
4. *Execution and evaluation is inconsistent.*

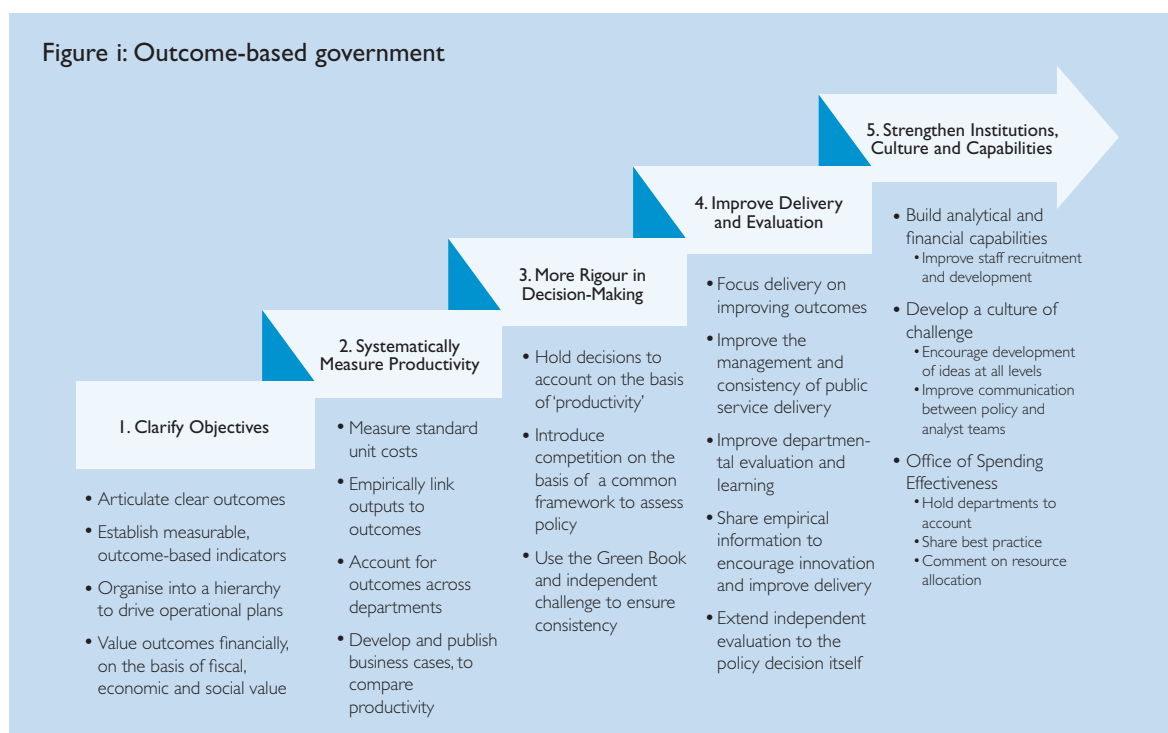
Underlying these weaknesses are important structural drivers:

5. *Capabilities and organisational structures are inadequate.*

The subsequent recommendations in each area are based on a study of best practice in budgeting, resource allocation and governance from public, private and voluntary sector organisations from across the international community. They address a range of issues including Key Performance Indicators (KPIs), capabilities, insights, management systems & processes, culture, accountability and governance.

The diagram below outlines how this report proposes to address these weaknesses.

Figure i: Outcome-based government



We believe that the recommendations that follow in this report are applicable across all levels of government spending. A common framework against which we can assess policy could enable national government, local government and the private and voluntary sectors to finally compete effectively on the basis of their ability to deliver outcomes cost-effectively.

1. Clarify Objectives

1.1 INTRODUCTION

Government objectives need to be cast in the form of outcomes: that is, in terms of the changes that we want to see in society. Without clear objectives, it becomes impossible to align an institution behind a shared goal, or to hold it to account for its performance in achieving it. Policy makers, by being vague about the outcomes they want to achieve, have a tendency to shift the goal-posts and declare policy success based on the outcomes that were achieved rather than the outcomes that were intended. This fails to improve the quality of decision-making, reduces trust and politicises decision-making. Without a very clear view of what outcomes are being aimed for, and how much we value them, there can be no consistent way of deciding how to apportion the available funds.

1.2 OVERVIEW OF FINDINGS

We have found that the uncomfortable and challenging trade-offs necessarily made every day by Government are rarely acknowledged explicitly. Furthermore, the institutions of government are often not aligned behind shared and consistent objectives. This can lead to problems in how resources are shared and services are delivered.

As the Government reviews the need for a statement of departmental objectives, it will clearly be important to avoid the main weaknesses of the Public Service Agreement (PSA) regime adopted by the previous Government (highlighted by the officials we spoke to):

- Outcomes were often confused with operational outputs.
- There was no mechanism to prioritise objectives.
- Indicators were inappropriate to accurately measure outcomes.
- There were too many competing indicators and targets.

1.3 OUTCOMES ARE CONFUSED WITH OUTPUTS

Politicians and officials focus predominantly on increases in government departments' resources and activity (i.e. outputs) – more policemen, more hospitals, more teachers – rather than on the improvements in social outcomes which these resources are supposed to produce. The distinction between outputs and outcomes is very important, but is often confused. The government has operational *control* over outputs: it can change its activities in order to influence

waiting times in hospitals, the number of police on our streets, and the number of job seekers in employment programmes, but it can only *influence* outcomes such as public health, public safety or the employment rate. Nonetheless, in all cases such outcomes are the ultimate objectives of policy, so as far as possible they should be differentiated from operational outputs.

Inputs are the amount of resources required to generate an output, and measured in terms of their cost, i.e. hours worked, space rented, materials used.

Operational Outputs are the item or activity generated by an input. Outputs, are usually finite in number, easily measurable and can directly be influenced by government policy, i.e. flu vaccinations, training places, nurses.

Social Outcomes are the change in society resulting from an output. Outcomes cannot be directly influenced and are usually harder to measure. However a change in society can be measured by using appropriate indicators, i.e. the outcome 'improved health' can be measured by the indicator life expectancy.

The old PSA regime was intended to be outcome-based. Though it was refined over time, PSAs often confused outcomes, such as sustained employment, with operational outputs such as the number of people on a training course. These outputs captured the activity undertaken in the hope that it would achieve a particular result, rather than measuring the result directly.

PSAs have been abolished by the Coalition Government, but it remains unclear exactly what will replace them as definitions of government objectives. The Coalition Government's Structural Reform Plans (SRPs) and departmental business plans appear to focus on reform activities, rather than outcomes. The government is holding itself to account for delivering reforms that change the machinery of government. We view this as a potential weakness: without outcome-based objectives, how can the Government be held to account for improving the lives of its citizens?

“Our research shows confusion about the focus of policy, conflicts within government agendas...”³

Warwick University: Community Cohesion

“Nine years on, nobody knows what it means to deliver ‘community cohesion.’”⁴

Senior Civil Servant, in evidence to the CSJ

1.4 A FAILURE TO PRIORITISE OBJECTIVES

Defining clear outcomes is not in itself sufficient for focusing resources effectively, because the list of goals is potentially endless. Within government structures, there is no consistent mechanism for prioritising objectives either within or across departments: government seems to

3 Warwick Business School, *Community Cohesion: A literature and data review*, p.3, accessed via: http://www2.warwick.ac.uk/fac/soc/wbs/research/lgc/latest/community_cohesion_-_a_literature_and_data_review_.pdf

4 Interview with a senior civil servant for a forthcoming CSJ report on Community Cohesion.

decide whether to make cuts in education, health or welfare, with insufficient evidence on the outcomes delivered to society from current spending in each of these areas.

Moreover, officials within departments have no straightforward and consistent way of prioritising or valuing outcomes outside of their department. They often don't even have visibility over the impact that their work has on other areas of policy. It is clear that effective prisoner rehabilitation can have an impact on outcomes outside of the criminal justice system: employment, education and the costs of social care can all fall. But as things stand, prisoner rehabilitation programmes are funded based on their impact on recidivism, with no recognition of how they contribute to other areas of society.

1.5 INAPPROPRIATE INDICATORS

It will always be difficult to set clear outcomes with meaningful indicators that help to target resources effectively, and that do not skew priorities. Operational targets risk skewing priorities toward output indicators that are directly linked to government activity, and are therefore easier to achieve and measure (i.e. addicts in rehabilitation programmes) and away from outcomes (former addicts free from addiction) that can only be influenced by government action.

Furthermore, excessive focus on intangible outcomes sometimes led to indicators that were so vague as to be impossible to measure. For example, the previous Government's PSA 14: 'Increase the number of people on the path to success' was measured by people's participation in positive activities. Both participation and positive activities need to be more clearly defined before they become measureable.

Despite their flaws, PSAs represented an attempt by the previous Government to hold itself to account, and over time they gradually provided better definitions of outcomes and their indicators. Now that PSAs have been abolished, it is unclear what indicators the Government will rely on as measures of success. The new departmental business plans announced Coalition priorities and a manageable number of key indicators for each department. However, priorities should refer primarily to outcomes, rather than the delivery of structural reform; and indicators need to be linked clearly to a relevant hierarchy of outcomes.

“The handbook of definitions for the national indicator set runs to 438 pages, with a number of indicators requiring two pages of definitions to clarify measurement.”⁵

Department for Communities and Local Government

1.6 A COMPLEX MYRIAD OF INDICATORS AND TARGETS

For indicators and targets to be useful, they need to be manageable, and clearly linked to the ultimate outcome. The number of PSAs along with their indicators and targets fell over the term of the previous Government. However,

5 Department for Communities and Local Government, *National Indicators for Local Authorities and Local Authority Partnerships: Handbook of definitions*, pp.1-438 accessed via: <http://www.communities.gov.uk/documents/localgovernment/pdf/543055.pdf>

“We often underestimated the very powerful impact that targets would have on behaviour; as a result everybody – particularly mid-level officials who faced no consequences for distorting targets – wanted them.”⁶

Senior Whitehall official

at the same time as PSAs becoming more concise, the number of departmental management objectives and their associated targets was growing at all levels. The result was that public servants faced a confusing range of objectives.

Without a clear hierarchy to guide trade-offs, and lacking the resources to meet competing (and sometimes conflicting) goals, managers were often left in an impossible situation. In many cases this led to a focus on chasing a small number of readily-measurable output targets – at best this was inefficient, and at worst it created perverse incentives which may actually have worsened outcomes for society as a whole.

The Coalition Government aims to reduce the number of operational targets and indicators. This will reduce bureaucracy and increase operational freedom, however, they will still need to provide guidance for decision-makers to drive activity that achieves desired outcomes.

1.7 CLARIFY OBJECTIVES: RECOMMENDATIONS FOR REFORM

The Government must define its objectives in terms of improved life outcomes for its citizens. Outcomes should have broad cross-party consensus and the following characteristics:

1. **The Government should articulate a clear set of outcomes that define its priorities.** These outcomes must reflect a change in society, rather than a change in government activity. The proposed structural reform plans will not, on their own, hold the Government to account for improving the lives of its citizens. The Government needs to state its objectives as a comprehensive and relevant set of clear outcomes. It could use the PSAs from the last Government as a starting point, and articulate the genuine outcomes while omitting references to operational metrics.
2. **These outcomes need to be organised in a clear hierarchy, so that they are capable of driving a set of operational plans.** These plans should be evaluated against how effectively they deliver outcomes, *not* how they meet a set of arbitrary targets. The amount of intellectual effort that needs to be invested in a clear hierarchy of outcomes and indicators is not to be underestimated.
3. **The Government should establish a set of indicators to measure and quantify changes in these outcomes.** Outcomes and indicators should be comprehensive yet relevant: sufficient to give a realistic picture of the government’s overall agenda while still being manageable; similarly these indicators should not make any reference to government activity. The ONS should set up an independent monitoring process to track the indicators associated with each outcome.

6 Primary research; interview with a Senior Whitehall official

4. **Outcomes need to be ‘value-able’, and valued.** The Government must begin to recognise the impact that change in an outcome has on public finances, the economy and society, by valuing outcomes in terms of their fiscal, economic, and, where possible, their social impact.

Valuing outcomes can be controversial; however, Government makes *de facto* valuations of outcomes all the time in their spending decisions. We believe that valuing social outcomes will *increase* the focus on many of them. Departments will better appreciate the impact of improved outcomes on reducing public sector costs, consider outcomes outside of their department and discount those outcomes that are delivered far into the future appropriately. Departments will be able to make consistent trade-off decisions in the pursuit of shared objectives.

This is no easy task, as demonstrated by the evolution of the previous Government’s PSA regime. However, with sufficient thought, it is possible to, and senior civil servants should, address the task. If successful they will be able to align all public sector employees behind a shared set of objectives, and better channel the activity of the voluntary and private sector in the pursuit of positive social outcomes.

2. Systematically Measure Productivity

2.1 INTRODUCTION

When the Government has a clear definition of what it wants to achieve, it then needs to understand how to deliver it as cost-effectively as possible. In the context of departmental budget cuts of 25 per cent over the course of this parliament, it is more important than ever to understand productivity, and use it to inform decision-making. This means understanding the relationship between the value of outcomes and spending. Successful spending decisions rely upon relevant, accurate, and timely information. Without knowing the true cost of a programme, and its effectiveness in achieving outcomes, option appraisal is partially guesswork – and furthermore it is more difficult for the good ideas to be recognised and nurtured.

“How on earth can you run big complex organisations like this when the data is so bad? Pure management information... what do you spend on this, how much does that cost? Very, very important.”⁷

Francis Maude MP, Paymaster General

2.2 OVERVIEW OF FINDINGS

Despite an increase in the ability to collect, interpret and analyse data across government, the costs associated with delivering specific policy outcomes remain stubbornly opaque. Departments have been slow to take advantage of

7 The Daily Telegraph, *Paymaster General Francis Maude drives a hard bargain* 13 Nov 2010. Accessed via: <http://www.telegraph.co.uk/finance/newsbysector/supportservices/8130227/Paymaster-General-Francis-Maude-drives-a-hard-bargain.html>

evidence or to commission new social science research to verify that outcomes are being achieved by planned outputs. Information on the cost-effectiveness of much public policy remains unknown.

We still have no method to objectively, reliably and systematically assess public policy. Without systematic use of data and evidence, it seems that guesswork and the personal biases of policy makers play a much greater role than they should. This leads us to question the basis on which policy decisions are being made.

Unfortunately, despite an increasing availability of data on cost, outputs and their relationship to outcomes, understanding of what each element of government spending truly achieves still appears to be patchy. This is because:

- Costs remain unclear in many areas.
- Outputs and outcomes are measured inconsistently, and the link between the two is rarely understood.
- Government fails to appreciate the full value of outcomes.
- A clear understanding of productivity is often not developed to support decisions.

Clearly, the business case should be one of the things that informs the political decision-making process. However, civil servants complain that political considerations are often given disproportionate weight, meaning that only a very narrow range of options are considered during the policy appraisal process. The late involvement of analysts in policy development led one civil servant to describe the process as ‘policy-led evidence making’, with the methodology often used to support ministerial initiatives rather than appraise policy options.

2.3 INADEQUATE COST INFORMATION

Both NAO and PAC reports comment on a lack of clear cost information for individual programmes and activities. The main reason for this is that relevant and comparable cost information is not demanded by commissioners: costs are rarely split according to the activity or output that they are funding, and the information that is available is not effectively shared across government. Understanding the cost of an output, the cost to deliver a service to one individual, makes data much more comparable, and easier to link to outcomes. However, the focus appears to be to manage costs according to how the money was spent (the amount spent by a hospital on nurses), rather than what it was spent on (the number of nurses required to deliver a particular hospital service). We came across a number of projects and initiatives aimed at addressing this, notably in education and criminal justice. However, such initiatives seem to be the exception rather than the rule.

“Many existing indicators rely on snapshot perceptual and attitudinal responses from participants...”⁸

Senior civil servant, in evidence to the CSJ

“Departments have struggled to develop reliable metrics that would indicate their progress from improved capability to improved outcomes.”⁹

National Audit Office, 2009

2.4 POOR UNDERSTANDING OF THE CAUSAL LINK BETWEEN OUTPUTS AND OUTCOMES

There has been a greater emphasis on measurement and monitoring of outcomes with the introduction of the PSA regime. We have already discussed some of the problems governments face in setting clear outcomes; this naturally has an impact on how readily (and how usefully) they can be measured. What is clear is that outcomes, once defined, should be measured and regularly monitored, and this does not always seem to be the case. Management information is either not collected, or not shared effectively so that it can support effective decision-making.

To understand productivity, government needs to consistently collect robust empirical evidence on the link between outputs and outcomes.

2.5 GOVERNMENT FAILS TO APPRECIATE THE FULL VALUE OF OUTCOMES

It is clear, therefore, that the relationship between government spending and the full value of life outcomes is not well understood. One reason for this is that government is slow to account for the dynamic impact that changing life outcomes can have on the public purse: the worst life outcomes are often concentrated in specific communities, and specific families within those communities. Local authorities report that anti-social families can in some cases cost over half a million pounds per year in public services, so changing the outcome for such families not only has an important social impact on the community, but can also produce significant savings for the State over many years and across multiple departments.

However, in many instances departments fail to communicate effectively with each other, gather similar information or share information effectively with each other or externally.

Unless we appreciate the full impact of transformed life outcomes on public sector costs, we will continue to focus our resources on ‘sticking plaster solutions’ that neither improve lives nor save money in the long term.

⁸ Interview with a senior civil servant for a forthcoming CSJ report on Community Cohesion
⁹ NAO, *Assessment of the Capability Review Programme*, London: The Stationery Office, February 2009, p. 9

2.6 INSUFFICIENT UNDERSTANDING OF PRODUCTIVITY TO INFORM DECISIONS

The mantra of ‘evidence-based policy’ has permeated the civil service in recent years: nonetheless, one senior advisor told us that the Government’s use of evidence remained ‘primitive’, with little appreciation of the threshold and quality of the evidence used. The inability to systematically and effectively incorporate robust empirical research into policy that changes life outcomes is a failing of the current process.

2.7 SYSTEMATICALLY MEASURE PRODUCTIVITY: RECOMMENDATIONS FOR REFORM

Government should allocate resources where they will deliver the most value: spending decisions must be made based on the productivity of that expenditure. Currently, Government lacks the capability to deliver a reliable estimate of productivity. It needs to remedy this.

5. **Cost accounting and reporting need to be standardised, with a focus on the unit cost of an activity.** Transparency, measurement and information sharing all need to be improved across government. Government needs to understand the cost of delivering an output, and understand the drivers of that cost. This is not about more bureaucratic layers, but ensuring the current reporting systems deliver truly useful information.
6. **Departments must systematically measure outputs and use empirical evidence to link outputs to outcomes.** Departments must understand the productivity of core departmental activity – the majority of departmental spend – in achieving outcomes. This should also be conducted for new programmes, and to review ongoing spend. It will highlight gaps in departments’ data collection and analysis capabilities.
7. **Departments need to work together to achieve outcomes.** Departments should take a broad view of productivity and be able to include outcomes delivered outside of their department in their productivity case if the knock-on effects on broader outcomes are well understood. This will require departments to work together, share information effectively and value outcomes in a way that is consistent across government (see recommendations 17 and 18).

“We found ... a case where one family was receiving more than 20 separate interventions by different public services ... the various separate interventions were effectively maintaining the family in its current situation ... offering no prospect of helping the family to move out of that situation into one which would be more fulfilling for them – and less expensive to the public sector.”¹⁰

Former local authority Chief Executive

10 Primary research: Interview with a former local authority Chief Executive

8. Departments need to develop and publish Productivity Assessments:

All new funding requests need to be made on the basis of a clear ‘productivity assessment’. This should link activity cost to outputs, outputs to outcomes and outcomes to their overall value – a stronger and more empirically driven version of the current Impact Assessment. The productivity case will be used to set targets based on the value of outcomes delivered. They will be evaluated based on the strength of evidence in achieving outcomes, their value and the timescales against which they will be achieved. The thinking and assumptions behind the ‘productivity case’ will need to be challenged by an independent team outside of the Department to ensure consistency, and they should be published as part of the spending and decision-making process.

Systematically measuring productivity will not be simple task, however it can be an objective to aim for, with a number of iterations planned along the way. Elements of this approach should be relatively simple; effective managers in the public sector will already have an understanding of the cost of delivering outputs in their departments. The more challenging elements will be to understand the effectiveness of different outputs in delivering outcomes, and to change the culture of government to one that works together and manages on the basis of effectiveness, rather than efficiency.

The WSIPP and Dartington research demonstrate that understanding effectiveness is possible by using meta-analysis of research and randomised controlled trials (RCTs). We believe that government should direct a portion of its resources toward funding this type of robust empirical research to help it better understand effectiveness in key areas of expenditure. The Government currently spends reasonable amounts on monitoring and measurement of activity. However, this funding would be better directed toward understanding effectiveness and away from monitoring output targets that, without a robust understanding of how they link to outcomes have become close to meaningless. To do so, it is necessary to have clarity around the desired outcomes and their indicators (see recommendations 1 and 2).

In the short term, departments should first identify and be open about spending that they believe fails to deliver desired outcomes. These are the areas of spending that should be cut first and cut immediately.

3. More Rigour in Decision-Making

3.1 INTRODUCTION

The principles of effective budgeting and decision-making need to be enshrined in a robust and effective governance process. Good spending decisions and effective delivery need to be rewarded so that decision-making culture and institutions remain focused on getting the maximum overall value

from public money. A culture that considers the size of a departmental budget rather than its effectiveness as the key measure of success, combined with limited consequences for failure, serve to weaken the ability of Government to make effective, long-term and meaningful spending decisions.

It is clear that electoral politics will always have a major influence over spending decisions, and personal incentives will have role to play in decision-making. Elected members should rightly have the final say; the aim of this approach is to inform policy and to better hold decision-makers and elected officials to account for their policy choices.

3.2 OVERVIEW OF FINDINGS

We have found that due to political and personal factors, decision-makers have often had little incentive to worry about value for money.

- The Green Book process is underused, and has a number of shortcomings.
- Too often politics takes a priority over cost-effectiveness in resource allocation.
- There are few personal incentives to make cost-effective decisions.

3.3 THE GREEN BOOK PROCESS IS UNDERUSED

The Treasury requires that every significant budget request is conducted through a business case process, guided by the Green Book methodology. However, there seems to be a lack of consistency in how it is interpreted. It provides little clear guidance on how to value social impacts or consider cross-departmental outcomes, compounding the problems of prioritising resources

effectively. Supplementary guidance to the generic Green book already exists in areas of criminal justice and transport; but this guidance does not currently follow a consistent set of principles, making it impossible to compare spending in different departments.

Furthermore, our conversations with officials and analysis of NAO reports gave us the impression that the Green Book is more honoured in the breach than the observance. Evaluation using the Green Book methodology is limited to spending on new programmes; and most importantly where the Green Book approach is applied, it is often too late in the day after the key policy decisions have been made.

“Impact Assessments for interventions originating from European Union decisions are often produced only after a decision has been made at EU level... not by the negotiation stage.”¹¹

The National Audit Office, 2010

3.4 EVIDENCE IS OVERSHADOWED BY POLITICAL PRIORITIES

Political rhetoric tends to focus on outputs over outcomes, and hence often gives little serious consideration to the cost-effectiveness of expenditure. It is

¹¹ NAO, *Assessing the Impact of Proposed New Policies*, London: The Stationery Office, July 2010, p.5

easier for a minister to announce a new initiative in response to perceived electoral priorities, than to consider how effectively that initiative achieves the outcome desired. Civil servants accept that they have a responsibility to inform ministers objectively, but report that the pressure from ministers can be often intensely political. The political rhetoric needs to shift from spending on outputs to effective spending that achieves desired outcomes.

3.5 INCENTIVES ARE NOT ALIGNED TO VALUE FOR MONEY

Public sector managers are not strongly incentivised to achieve true value for money. Managers must meet departmental targets, often ignoring the impact that their spending has on outcomes achieved outside of their department. They focus on protecting budgets and achieving short-term targets over longer term measures. There is a cultural avoidance of acknowledging failure (often with political encouragement), contributing to risk-averse policy making; and an honest, objective evaluation of effectiveness remains elusive. The way in which we assess ministerial and management success within the public sector has to be on the basis of delivering outcomes cost-effectively. Cost-effectiveness is rarely the focus, and there are few incentives for success or consequences for failure on this measure, leaving a constant upward pressure on government spending.

“Neither the Treasury nor departments had an incentive to report only soundly based savings.”¹²

Public Accounts Committee

3.6 RIGOROUS DECISION-MAKING: RECOMMENDATIONS FOR REFORM

It appears that departments currently lack incentives to measure cost-effectiveness and allocate resources accordingly. Elected officials should rightly have the final say over how to allocate public funds (and be held to account over their decisions) – but at the same time, they should be able to justify their decisions based upon independent, objective analysis of their effectiveness. There are three areas where governance of such decisions could be improved.

- 9. Strengthen the Green Book process (and its deployment).** Departments must be responsible for the consequences of allocating their own budgets, funding and commissioning public services to deliver outcomes. They need to own their own analysis of the cost-effectiveness of the activities that they fund – so that they can recognise the value of their impact on future core and cross departmental outcomes. Hence, the guidance in the Green Book must be developed to reflect the recommendations in this report and tailored to suit the needs of each department. This will help in securing departmental buy-in and enable a consistent, analytical, evidence-led approach to spending to be rigorously followed as part of the decision-making process, rather than after the fact.

12 PAC, *Progress with VFM savings and lessons for cost reduction programmes*, Summary, Oct 2010, p.5 accessed via: <http://www.publications.parliament.uk/pa/cm201011/cmselect/cmpubacc/440/440.pdf>

10. **Use the new business case to hold public servants to account.** Elected officials and other public servants are responsible for policy and spending decisions. They need to be rewarded for good decisions and held to account when their decisions fail to improve outcomes. This does not give primacy to the business case process, rather it ensures that evidence is used to inform policy decisions. The business case should detail how evidence based programmes are to be implemented, and used to encourage decision-makers to take responsibility when they diverge from the evidence.
11. **Incentivise the Civil Service to focus on cost-effectiveness.** The Civil Service should own its analysis, set its own targets based on what it believes is achievable and be rewarded for achieving or exceeding these expectations. This should also ensure that financial and performance rewards are tightly linked to success and failure in delivering the departmental business plans and achieving planned cross departmental objectives.

A common framework for assessing policy (and its implementation) should enable public, private and voluntary sector providers to compete on the basis of ability: that is whoever can deliver outcomes cost-effectively. In some areas, we will find that non-government delivery is more efficient, in others it may not be. More importantly, this change will dramatically increase the amount of innovation around delivery of outcomes. Over time, this should dramatically increase the efficiency of how government delivers for the nation.

4. Improve Delivery and Evaluation

4.1 INTRODUCTION

There is little point making sound policy decisions only to see their value undermined by costly, delayed or incomplete execution. Cost-effective decisions have to be based on accurate information and evidence, but they also have to be executed consistently and as planned to ensure that they are delivering the outcomes expected of them. It is essential that government spending is regularly evaluated and closely monitored to identify where public services can be improved and to ensure that public money is being spent effectively. Effective execution, evaluation and monitoring enables Government to learn the lessons of past service delivery and improve performance.

“The average rise above approved business case estimates for NHS schemes is 117 per cent, representing just over £4 billion.”¹³

National Audit Office

13

Based on a summary catalogue of all NAO reports on health since 2000

4.2 OVERVIEW OF FINDINGS

Public service delivery is currently heavily oriented to delivering services, rather than achieving outcomes. Our analysis of reports from the NAO and PAC reveals a set of shortcomings that frequently hamper policy implementation.

- Departments have poor delivery capability and limited accountability.
- The delivery of public services is inconsistently managed, monitored and executed.

Departments fail to systematically evaluate and improve the delivery of their core services; there is limited comparison of the effectiveness of competing policy options and where this does take place, a lack of consequences for poor decisions and execution entrenches poor delivery capability.

- Internal departmental monitoring/evaluation is not effective.
- The NAO is focused on monitoring the implementation of policy, not policy effectiveness.

“A 2007 OECD survey found that when performance targets are not met, programmes are almost never eliminated, budgets and pay structures are not affected, and the only impact is a high chance of closer monitoring in the future.”¹⁴

4.3 POOR DELIVERY CAPABILITY

In Whitehall, many departments appear to lack the capability to focus on the delivery of outcomes instead of outputs. Departmental capability reviews have repeatedly found that delivery was the weakest link in departmental performance; almost all departments had ‘significant weaknesses’ in managing staff and processes to meet future challenges.

There is only limited accountability for success or failure in the delivery of outcomes. It is unsurprising when a poorly executed programme fails to achieve its objectives. Better accountability would ensure that commissioned programmes were executed effectively. For this to work, decision-makers have to be well-informed about what works and the consequences of failing to deliver programmes with fidelity.

4.4 INCONSISTENT MANAGEMENT OF THE DELIVERY OF PUBLIC SERVICES

A significant portion of government spending is channelled through the private and voluntary sector, to support the delivery of public services. Both of these sectors take their lead from commissioners in how they report and monitor outcomes. Departmental capability reviews emphasise internal operations, and fail to address departmental capabilities in managing external organisations – a large fraction of departmental spending. While

14 OECD, *Budget Practices and Performance Surveys*, 2007, q.84

“The commissioning process feels like a bureaucratic exercise without sufficient focus on outcomes.”¹⁵

CSJ Poverty fighting Alliance Member

commissioning is ostensibly on the basis of value for money, we were told that procurement teams often lack the skills or the resources to monitor value for money effectively. Those involved in commissioning noted that contracts tended to be longer term and highly regulated, dampening competitive pressures. They also noted that, where data was available, it was rarely used to benchmark or improve performance.

Local authorities face a similar lack of appropriate management, as Central Government has projected complex reporting lines, targets, statutory requirements and ring-fenced funding onto local authorities. Public servants are left very little room for effective decision-making at local level, limiting the ability of local government to deliver outcomes. Despite this centralised approach, flagship programmes such as SureStart have suffered from inconsistency in local implementation, and as a result benchmarking their effectiveness across the country has proven very difficult.

4.5 INTERNAL ASSESSMENT IS INEFFECTIVE

The difficulty in measuring costs and impacts means that the social value of ongoing expenditure (which constitutes the bulk of public spending) is rarely measured in any robust and meaningful manner. We struggled to find examples of departments referring back to their original business case to see whether programmes were implemented successfully.

“...departments could not even measure adequately what savings they had made, and the Treasury failed to create a Framework for reliable reporting.”¹⁶

Public Accounts Committee

Some departmental Value for Money teams demonstrate an ability to focus on improving operational effectiveness in delivering outcomes. However, the majority of this resource within government is focused on improving the efficiency of delivery through, for example, better procurement. Their ability to evaluate and learn the lessons from past policy to inform future decision-making is generally limited due to weak analysis and a limited ability to influence and challenge policy decisions.

4.6 THE NAO IS NOT SET UP TO MONITOR POLICY EFFECTIVENESS

Internal departmental evaluations should inform future policy decisions; however, they are not the place for an independent evaluation of effectiveness. Most departments lack the skillset to carry out independent evaluations and face a natural bias when evaluating their own department's policies. This places an important burden on the external bodies that scrutinise public spending, primarily the NAO and the PAC. We find that they are restricted in

¹⁵ Primary research: CSJ Alliance Member; similar comments were made by private sector companies involved in bidding for public sector contracts.

¹⁶ PAC, *Progress with VFM savings and lessons for cost reduction programmes*, Summary, Oct 2010, p. 5 accessed via: <http://www.publications.parliament.uk/pa/cm201011/cmselect/cmpubacc/440/440.pdf>

scope: their remit is to assess how spending decisions are carried out, rather than to question the decision itself. If their remit were expanded, the NAO would lack the resources to carry out SROI evaluations effectively. Where they have attempted to evaluate value for money, we feel that their reports seem to be inconsistent in the evaluation of social value and public sector savings. There is also no process to ensure that recommendations, once accepted, are implemented effectively by departments.

4.7 DELIVERY AND EVALUATION: RECOMMENDATIONS FOR REFORM

Government needs to develop much more consistent and systematic monitoring and evaluation of programme delivery. This will allow it to stop what is not working well and to provide the insights on what the actual costs and outcomes of different activities are. We need more openness and clarity about costs, implementation progress and the outcomes that were achieved compared to original expectations. This increasing transparency is a continuation of current trends, and will help to inform policy and frame the debate around what works. Delivery must be geared toward achieving outcomes, and there have to be mechanisms to measure, monitor and hold departments to account for their performance.

12. **Improve delivery capability and accountability to focus on outcomes.**

Government should be clear and precise in what it wants. Departmental targets for programmes need to be geared toward maximising the value of achieved outcomes. This will require clearly defined, measurable and valued outcomes, with indicators that are linked to top level outcomes and are reliably and regularly measured. This should encourage departments to achieve government outcomes, rather than departmental outputs. Departments should be rewarded for the successful delivery of programmes and be held accountable where expected outcomes are not achieved. They should be encouraged to work together to achieve outcomes, and split funding based on their relative contributions. Decision-makers must allow for the appropriate use of professional discretion when defining how well-informed and accountable public servants go about achieving these outcomes.

13. **Improve the quality of management.** Departments need to be guided by the ‘productivity’ or business case when implementing programmes. The business case should set its own targets and timelines for achieving outcomes, as well as define how key indicators and metrics will be monitored. Delivery organisations have to be aware of and contribute to the evidence, and execute programmes with fidelity. Changes to implementation need to be justified in the context of both improving outcomes and supporting programme evaluation. The commissioning process needs to allow for the effective management of private and voluntary sector providers; they should deliver to a minimum standard and be evaluated against the cost-effective delivery of outcomes.

- 14. Improve internal monitoring and evaluation.** Departments need to be evaluated against their own agreed targets. The implementation of programmes needs to be monitored against the business case that originally led to funding approval. Evaluations of resulting outcomes need to be peer reviewed, and used to build up a body of knowledge so as to improve the effectiveness of policy and its implementation.
- 15. Strengthen the external monitoring remit of NAO.** The cost-effectiveness of core spending and programme spending by departments needs to be better understood and made more transparent to influence future resource allocation. The Office for National Statistics (ONS) subsidiary the Centre for the Measurement of Government Activity, needs to break down productivity estimates to help understand the productivity of different departmental activity. The NAO needs the resources, remit and independence to ensure it is capable of providing effective oversight over the efficiency and effectiveness of delivery.

In the absence of effective evaluation, unproductive spending will continue to be justified on weak grounds and opportunities to improve both policy and service delivery will be missed.

In the US, the Government Accountability Office (GAO) and the WSIPP have combined technical capability with institutional integrity to improve effectiveness and influence policy. Without this combination of capability and credibility, policy will continue to be unduly influenced by ministerial initiatives and policymakers' predictions.

5. Strengthen Institutions, Culture and Capabilities

“NAO qualifies accounts of five government bodies”¹⁷

Public Finance Magazine

5.1 INTRODUCTION

It is one thing to identify the manifestation of weak decision-making in government, but it is also necessary to understand what underlies these observations. The culture and capabilities of Government institutions must ensure sustained quality of decision-making.

5.2 OVERVIEW OF FINDINGS

Our research suggests that the existing institutions are unable to govern the decision-making process effectively. Over and above the criticisms we have made so far of the expenditure and resource allocation process, across all levels of government there are specific problems at a number of levels of decision-making.

¹⁷ *Public Finance Magazine*, 28 July, 2010, p.1 headline

- Departmental capabilities in finance, monitoring and analysis need to be improved.
- Whitehall culture does not adequately support challenge.
- Interactions between departments and the Treasury do not provide the right checks and balances.

5.3 DEPARTMENTAL CAPABILITIES: FINANCE, MONITORING AND ANALYSIS

One of the most important capability gaps that we have identified is the inconsistent level of analysis and financial skills within departments and local authorities. In order to be able to truly establish social return on investment, and relate productivity to the value of outcomes, it is essential that each department has strong capabilities in these areas. It is not just that the departments are too big and unwieldy; in many cases they also have the wrong mix of skills (at all levels)¹⁸. Recent updates to the capability reviews recognised that these were improving, but there was further to go. There appears to be a weakness in management that fails to challenge and develop junior staff sufficiently to develop to their full potential.

Civil servants often commented on the poor communication between policy and analyst teams, with economists and analysts not involved in policy making until late in the process, and focusing their efforts on evaluating ideas already developed by the policy teams. If evidence-based policy making is to be fully adopted, government needs to begin with the data, and develop policy based on robust evidence.

“Often missing from policy announcements is a robust analysis of previous efforts. What did the policies achieve?... Which should be continued and which dropped? Yet imagine the headlines if this were to happen: “Millions of pounds wasted”, “Minister undermines predecessor”, “School policies in turmoil”. The need to evaluate interventions collides with the political imperative not to admit to mistakes.”¹⁹

Estelle Morris, 2008

5.4 WHITEHALL CULTURE DOES NOT ADEQUATELY SUPPORT CHALLENGE

The departmental capability reviews found that two-thirds of departments are tackling problems in their organisational culture, including insularity and the need for staff to be able to ‘speak up and challenge’. Junior policy makers are reluctant to propose ideas, partly because they are initiative-led and often, we were told, because ‘they are surprised to have been asked’.

Policy development should be informed by the evidence. However, the distinct career paths within public organisations for policy makers and analysts means that there is little cross-fertilisation between these two important groups of public servants.

¹⁸ Primary research: Senior Whitehall Official

¹⁹ The Guardian, *Sounding tough doesn't solve problems*, 24 June 2008. Available via: <http://www.guardian.co.uk/education/2008/jun/24/schools.1419education>

Project teams within government rarely integrate economists from the start. Involved late on, analysts focus on evaluating the ideas that policy teams have developed, using data to identify problems, but rarely to solve problems or propose solutions.

5.5 INTERACTIONS BETWEEN DEPARTMENTS AND THE TREASURY

In the UK, a number of existing institutions provide independent oversight into the activities of government, but they lack the remit to comment on how resources should be allocated, or to evaluate the spending decisions of ministers or civil servants in advance.

The Treasury has traditionally been the focal point for ensuring that the budget is allocated effectively across departments. Its influence grew under the previous Government. It was criticised at the time for over-stepping its traditional limits, as it became the driving force behind a number of centrally-driven policy initiatives. Aside from taking its focus away from allocating resources effectively, civil servants complained that the Treasury had become heavy-handed and overly dependent on departmental staff – who themselves were not necessarily best placed to provide the Treasury with what they thought they needed.²⁰

This development contributed to an adversarial relationship between the Treasury and departments, limiting openness and transparency. Budgetary negotiations were characterised by a ‘fight your corner’ mentality on both the costs and the specifics of policy decisions. As a result central government seemed to have lost an objective and critical perspective with which to review spending decisions.

5.6 INSTITUTIONS, CULTURE AND CAPABILITIES: RECOMMENDATIONS FOR REFORM

If the pursuit of social outcomes is to be truly embedded in a government geared toward achieving cost-effectiveness, the culture and capabilities of the institution have to change. Departments and civil servants need the skills to carry out the analysis robustly, but more importantly the cultures of the organisations have to become more open to scrutiny, both internally and externally. The leadership should be guided by the evidence, and align all levels of government to work together to achieve desired outcomes.

16. Build analytical and financial capabilities within departments. The ability to allocate funds and to spend effectively is dependent on financial and analytical skills, since it relies upon understanding cost-effectiveness. The lack of market signals makes the need for robust financial and analytical skills even greater in the public sector than in the commercial world.

²⁰ Primary research: Senior Whitehall Officials

Improving and expanding finance capabilities can produce significant efficiencies. For example when DEFRA²¹ began to treat the analysis of its core spending decisions in the same way as (closely monitored) programme spending, it was able to make significant savings and generate a budget surplus for use as a contingency fund.

In many departments such skills exist already, but they are rarely fully exploited. Increasing the role of analysts in the policy development process and mixing the analyst and policy streams should lead to more policy being based on the evidence. This requires a change in the management of analysts, an upgrading of their capabilities and in some cases a redeployment of resources. A review of departmental capability reviews showed that those departments that made the most progress in finance,²² and the strongest performers in recent capability review updates, were those that

- Emphasised training, particularly professional qualifications;
- Brought in external hires at all levels, particularly in the most senior positions;
- Had a strong internal budget allocation process in place that links budgets to departmental strategic priorities.

17. Develop a more open and challenging culture. The culture within Government has to focus on achieving cost-effective outcomes. Employees within all departments need to be aligned behind shared objectives, and SROI has to be embedded in the analysis of policy. It will require leadership to embed SROI as part of the culture and values of an organisation, and it will take time to build the skills and evidence required to have confidence in the numbers. Government should aim to achieve the early steps in this process as quickly as possible:

- Policy ideas should be encouraged at all levels and externally, submitted with supporting analysis.
- Competing policy ideas should be evaluated on a consistent basis.
- A proportion of government expenditure should be set aside for an Innovation Budget. This can be used to fund and nurture exceptional initiatives from the public, private and voluntary sector that lack the evidence to demonstrate effectiveness, but which nonetheless show promise.

If departments can improve their performance by focusing on cost-effectiveness, they will become a champion for SROI within government. Without this culture shift, the evidence will continue to be led by the policy, rather than the other way around.

18. Set up independent body to scrutinise and strengthen decision-making. Departments need oversight in measuring and ensuring productivity. Both the decision-making process and the thinking

21 Cabinet Office, *Capability Reviews: An overview of progress and next steps*, London: COI, 2009 pp.27-29

22 Cabinet Office, *Capability Reviews: An overview of progress and next steps*, London: COI, 2009 pp.27-29

underlying their analysis need oversight. The Treasury itself lacks the necessary independence from resource allocation or government spending to fill this role effectively. The NAO is backward-looking, focused on decisions that have already been made, and with the PAC they operate at a slower pace than that required for decision-makers in government. On the other hand the success of the Office for Budget Responsibility (OBR) has shown how an independent body can hold government departments (including the Treasury) to account in managing and projecting the overall level of government spending. But there is no equivalent scrutiny of the value of outcomes delivered by that very spending.

Hence, we recommend creating an independent body (The Office of Spending Effectiveness) responsible for setting standards of decision-making on public spending programmes, ensuring consistency to those standards and holding to account departments for delivery against agreed business cases. An independent body commenting on resource allocation and effectiveness would add an analytical edge to what has become a process driven by political initiative rather than evidence. The aim of this body would not be to criticise or unfairly judge the decisions of politicians or public servants; rather to further the understanding of effectiveness by policy makers.

THE OFFICE OF SPENDING EFFECTIVENESS (OSE)

The OSE would assess the cost-effectiveness of public policy on a forward-looking basis and operate flexibly, supporting decisions at the speed that they need to be made in government. To enable it carry out this function it would need a different remit and skill set from existing institutions. It would:

- Review and agree the departmental outcomes and indicators associated with core departmental objectives:
 - Develop a metric for the total fiscal, economic and social value of improving each major outcome.
- Set the standards for departmental productivity measures:
 - Collate and disseminate knowledge on both the costs of initiatives and their effectiveness across government – in particular accounting consistently for cross government effects;
 - Support the use of departmental expertise and research, and ensure a consistent methodology was used across departments.
- Assess business plans for spending programmes:
 - Own and disseminate the Green Book process to advise and guide departments on the appropriate methodology for business plans;
 - Comment on the effectiveness of all major spending programmes and the budget allocations within and across departments.
- Set standards for the execution and monitoring of government programmes:
 - Provide the NAO and PAC with reference points for their review mechanisms.
 - Use the business plans to hold departments to account for effective delivery.

We recommend that this body does not usurp the analytical role of government departments. The scope of national government is too big to have an outside body conducting (or replicating) all its policy analysis. Departments need to own and build their analytical capability – and if anything the analytical and policy functions need to be brought closer together. However, the OSE could define the analysis that needs to be done, and the evidence required to justify spending decisions – ensuring that the standards and rigour of organisations such as WSIPP are replicated within departments. It will still be necessary for departments to train their staff to build their skills and understanding, and provide the tools required to deliver social outcomes and support effective decision-making. Guidance and scrutiny from the OSE should help to make sure this is effective.

Furthermore, it is not the job of the OSE to set targets – for that is a political exercise. However, in carrying out its remit, it will increase the alignment between spending decisions and political targets.

The Office of Spending Effectiveness would have an impact on the remit of other government institutions:

- The **Office for National Statistics** would continue to be responsible for monitoring national indicators across government. It would need to work with the OSE to ensure that relevant indicators are measured.
- The **National Audit Office** would continue its role in assessing how well government policies were implemented. This would complement the OSE's responsibility to scrutinise policy decisions ex-ante. Some of the skills of the NAO could be brought into the new body to support the analysis of spending effectiveness.
- **The Treasury** should focus on its core function of being a finance ministry. It should remain separate from departments and from the delivery of initiatives. It should focus on effective allocation of resources across departments, and agreeing their budgets. This might involve changing the size of the Treasury, and a transfer of some of its skills and resources into departments. In addition, the Green Book team might sit better within the OSE, rather than the Treasury.

Without these changes, outcome-based government will remain isolated, applied only in pockets where both the skills and leadership exist – but not across government.

Conclusion

Value for money within government has often tended to focus on 'efficiencies' in delivering existing policy. Although this is important, we believe far more can be achieved by focusing on 'effectiveness' when developing policies. However, a lack of clear objectives, poor and inconsistent measurement and

monitoring, and weak institutions all point to a historic inability to maximise social value. This indicates both wasted public money and a wasted opportunity to improve outcomes for society.

The Government has decided that cutting the deficit is its main priority – hence it is imperative it ensures that this reduced public spending is cost-effective. The Government will need to decide the detail of how spending cuts will fall within different departments, and this means making choices and real trade-offs between different types of spending.

Spending cuts have to be implemented across government; within departments, local authorities and service partners, in the right way. The impact of cuts can be minimised by following the recommendations in this report: with clear objectives and proper guidance, cuts will tend to fall where they will have least impact; by gathering reliable measures of productivity, cuts will be focused in areas of unproductive and unjustifiable spend; and with effective governance, cuts will be made that avoid burdening future taxpayers with the ongoing and increasing costs of social breakdown.

Effective spending decisions require a fundamental change in the way we view public spending. This is a cultural and organisational challenge as much as a technical one. To do this will require an important shift across the civil service: to a culture that values transparency and accountability, and incentivises cost-effective delivery and cross-departmental working. All of this cannot happen overnight, but much can be achieved quickly – and it needs to, if we are to minimise the impact of public sector cuts on the quality of life in the UK. It requires a change to the way government operates, as well as some institutional changes.

Firstly, it means being clear about the outcomes that the Government wants to achieve and being consistent in how those outcomes are valued based on their fiscal, economic and social impacts. The Government can begin by enhancing the Structural Reform Plans, so as to clarify and emphasise the underlying objectives of the proposed reforms. These should be articulated in terms of social outcomes and the measurable outcome-based indicators on which it seeks improvement.

Government must also seek to understand systematically the link between the cost of the activities that it chooses to fund and the impact of that activity on outcomes. It can begin to measure productivity and focus cuts on programmes that fail to deliver outcomes, or are the least cost-effective. The evaluation process behind this has to be robust and consistent, so that future decisions are continuously improved based on past analysis. It should encourage the testing of new approaches to deep rooted problems; indeed, replicable ideas that are proven to work should spread further and faster under this approach as their value becomes clear. Over time, it can increase pressure by rewarding those departments that use evidence effectively and build their knowledge base against what works.

Furthermore, the Government can be more open and transparent about the spending review process. It should disclose its rationale for specific public

sector cuts on the basis of value for money; showing that those cuts will have a minimal impact on outcomes. It could begin by making public the business case upon which past spending decisions were made, and reforming those that are failing to meet expectations.

To underpin these changes, a new OSE would demonstrate that the Government are serious about using evidence to inform cost-effective public spending, and set the tone for departments and local authorities. This is not about another layer of bureaucracy, but about addressing a gap in the understanding of cost-effectiveness and evidence when making major spending decisions. The OSE would work in tandem with the ONS and the NAO. The ONS should measure and monitor the indicators relating the government's most important objectives, and the NAO should strengthen its role in monitoring the outcomes delivered by specific programmes, and their cost-effectiveness. The OSE would scrutinise departmental analysis and evidence prior to spending decisions being made.

We know that improvement is possible; organisations such as the State of the USA show that it is possible to define clear outcomes that are linked to meaningful measures. The WSIPP demonstrates that it is possible to make independent, evidence-based policy decisions based on the value that those policies are expected to deliver to society. The SROI network shows that this approach, if applied consistently, can help organisations measure and therefore objectively improve the value that they deliver to society.

We believe that there is significant opportunity in the UK as well. If we can clarify objectives, we will be able to align government and delivery partners behind the delivery of shared social value. By measuring productivity robustly we will be able to cut wasteful and unproductive public spending and reallocate resources to activity that improves, even transforms, lives. A consistent framework against which to assess policy would allow the public, voluntary and private sectors to compete effectively based on the ability to deliver outcomes, and improve delivery year on year.

The outcome-based government approach would produce dramatic benefits to individuals, communities and taxpayers alike. Importantly, it would begin the work of tackling preventable poverty and reversing social breakdown. We cannot afford the status quo and it is now time for the Government to seize this opportunity.

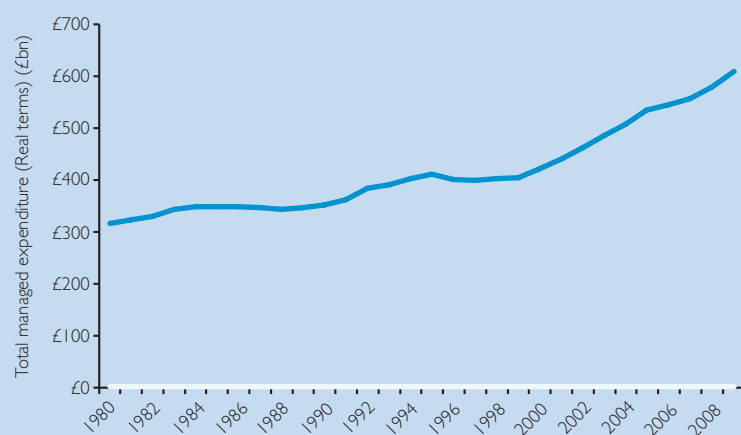
CHAPTER ONE

Introduction

1.1 Background

The past few decades have seen a relentless increase in public expenditure: billions of pounds have been spent on public services such as education, social services and health, as well as on welfare to work and other programmes intended to address the causes of social breakdown. A broad range of initiatives – many of them very costly – have been launched with the aim of improving people's lives. Yet, in most cases their real impact and hence their real value is unknown.

Figure 1: Total managed expenditure in real terms, 1980 – 2009, £bn



Source: ONS¹

In the context of the Government's efforts to tackle the budget deficit, it is vital that we understand where public spending delivers results, and where it does not: the implementation of the Spending Review needs to protect those areas where spending is achieving its objectives, and cut less effective programmes. Over the course of this parliament, the Government will need to decide the detail of how spending cuts will fall across different departments, and this means making choices and trade-offs between different types of spending. This report assesses how rigorously spending decisions are made today, and proposes some ways the process might be improved.

1 Office for National Statistics: TME series data accessed via:
http://www.statistics.gov.uk/downloads/theme_economy/psf_supplementary_data.xls

1.2 The challenge

In an ideal world we as the public would get more of the things we value, and less of the things we care less about, all delivered at greater efficiency. The people would get more as a result of government decisions. The Government has limited resources at its disposal, hence the objective must be to maximise the effectiveness of Government spending. This depends upon increasing the rate of the return to society from taxpayers' money.

Our objective is not to identify one-off spending decisions that should with hindsight have been made differently, but rather to identify systemic failures in the decision-making process itself. The consensus is that government spending decisions are not made on the basis of cost-effectiveness.

There is evidence to suggest that the spending decisions of successive UK Governments have been made in haphazard ways that have failed to maximise social value. While much of this waste appears to stem from the implementation of spending decisions, we also believe that government waste stems equally, though less visibly, from the effectiveness of the spending decisions themselves.

Improving *efficiency* means minimising delays and cost overruns, improving the implementation of IT projects and procurement and reducing the levels of fraud and error. Opportunities to improve the efficiency of government delivery include:

- IT projects: The NHS IT² programme, or the C-NOMIS IT³ system for offender management are widely considered as having been poorly scoped.
- Procurement: Criticised by the NAO in a number of departments including the MoD, the fire service and the NHS.
- Fraud and error: This plagued the Department for Work and Pensions welfare payments and HMRC Tax Credits, with departmental accounts having to be qualified as a consequence.⁴

Improving *effectiveness* requires clarity over the outcome that is being aimed for, and an objective method of comparing how well different policies are able to achieve that outcome. It is common to find spending commitments which continue for years despite little or no certainty about what they are achieving, and new initiatives launched to deliver outputs without fully appreciating the corresponding link to outcomes. Inconsistency in measurements and methodologies makes evaluating effectiveness objectively extremely challenging:

² PAC, *The National Programme for IT in the NHS*, London: PAC, 2007; NAO, *The National Programme for IT in the NHS: Progress since 2006*, London: NAO, 2008

³ NAO, *The National Offender Management Information System*, London: NAO, 2009

⁴ NAO, *The Auditor General's Standard Report; DWP resource Accounts*, London: The Stationery Office, 2009-10 p.48; *HMRC Accounts*, London: The Stationery Office, p.84 2008-09

- Early New Deal programmes, such as the Gateway to Work – costing £750 for a two-week course⁵ – were focused on delivering training and monitoring attendance over the impact on employment.
- ‘Our research shows confusion about the focus of policy, conflicts within government agendas...’⁶
- ‘The Government spends £1.2 billion a year on measures aimed at tackling problem drug use, yet does not know what overall effect this spending is having.’⁷

Governments have to make difficult decisions about resource allocation and spending at all levels. How much should be spent on trying to achieve outcomes in education compared to unemployment support, health or policing? Should limited financial resources be spent rehabilitating prisoners, or on providing early intervention to help at-risk children? Individual departments and local authorities have to make numerous trade-offs between the best ways to achieve their objectives. For example, to reduce unemployment, should the Department for Work and Pensions (DWP) spend money on reducing benefit withdrawal rates or increasing back-to-work programmes, or do the most effective solutions lie in education policy? Should local authorities divert funding from the budget for looked-after children to fund family-based early intervention programmes such as the Family Nurse Partnership, as a way of achieving better social outcomes for both children and parents?

CASE STUDY: BAC O’Connor⁸

Barry began using alcohol and drugs at a young age, and became involved in criminal activity, resulting in over twelve years spent in prison. As a result of his drug misuse he also received state help for medical care and benefits. Barry’s life changed after entering the Burton Addition Centre (BAC) abstinence rehabilitation and re-integration programme in 2009. He is now in a work readiness programme, living independently, helping to support his elderly mother and is working as a Recovery Champion, motivating other dependent drug and alcohol users to believe that recovery is possible. Barry says that he is proof of what a “successful and meaningful” outcome is.

The current cost of addiction to the Government and society is huge. Those with drug and alcohol problems collectively cost billions per annum in health services, police time and benefits. In addition, these individuals are not able to contribute meaningfully in terms of work or support for their families and the wider community.

Recovery interventions that focus on life transformation however, can result not only in an individual becoming an asset to society, but can also reduce the amount of money spent on them.

Are we able to accurately identify which of these interventions are most effective, and for whom?

5 DWP, Research Report No.366 *Gateway to Work New Deal 25 Plus pilots evaluation*, 2006 p.11

6 Warwick Business School, *Community Cohesion: A literature and data review*, p.3, accessed via: http://www2.warwick.ac.uk/fac/soc/wbs/research/lgc/latest/community_cohesion_-_a_literature_and_data_review_.pdf

7 PAC, *Tackling problem drug use*, London: PAC, March 2010, p.5

8 Centre for Social Justice and Recovery Group UK, *A radical vision for recovery: Reforming the drug and alcohol treatment system*, June 2010, P.7 (unpublished)

Maximising social value often implies placing more emphasis on tackling root causes, rather than primarily treating symptoms. Spending is most worthwhile, for example, when addicts are freed from their addiction, no longer committing crime to fund their habit, and gainfully employed; when prisoners are rehabilitated so that they do not re-offend, but instead participate positively in society; and when struggling families are guided and supported to ensure that children grow up stable, and able to fulfil their potential. If spending can be shifted away from failing initiatives towards programmes that transform lives, then the process of reversing social breakdown will have begun, and the social and financial returns to society and the public sector will be very great indeed.

The scenarios outlined here are real, and every day the Government makes decisions about who to support and how. Yet these uncomfortable and challenging trade-offs are rarely acknowledged explicitly. Politicians and civil servants are often more comfortable being vague about the outcomes they want to achieve and about the relative importance they attribute to each outcome. It is easier to focus on operational outputs – more policemen, more hospitals, more teachers – rather than the changes in social outcomes that these outputs are supposed to achieve. Without a very clear view of what outcomes are being aimed for, and how much we value them, there can be no rational way of deciding how to apportion the available resources.

1.3 Scope of this report

It is easy to seize on anecdotal cases of policy initiatives that are widely considered a waste of money (as we have demonstrated). It is important at the same time to acknowledge that there are some compelling examples of best practice in the UK. The Green Book has been commended and copied by a number of governments across the world; the National Institute for Clinical Excellence (NICE) evaluations seek to objectively assess the impact of medical interventions on health outcomes; and the National Audit Office (NAO) and the Public Accounts Committee (PAC) provide a public forum for the scrutiny of policy, improving the governance over decisions.

This report aims to focus on systematic failures, primarily in the spending decisions themselves and how they are made. Our evidence comes from bodies mandated to monitor the performance of departments and public service bodies: the NAO, which audits government spending and performs Value for Money reviews of programmes; the PAC, which reviews the implementation of programmes; and the Cabinet Office, which produced a series of Department Capability Reviews in 2007. These reports are supplemented by interviews with senior civil servants, policy makers and others involved in the delivery of public services.

Decision-making in government is guided, in theory at least, by a set of sound processes. We focus our scope on five areas essential to making effective decisions.

1.3.1 OBJECTIVES

Clear objectives help to align the decisions of managers across government and the actions of public servants in the pursuit of shared objectives. These objectives need to be measurable, in order to assess our progress towards them, and prioritised to support decision-makers when they are faced with the unavoidable trade-offs involved in making spending decisions with finite resources.

Public Service Agreements (PSAs), introduced in 1998, were an attempt to articulate the highest priorities of the previous Government. They were complemented by objectives set at departmental and local authority level, and each of these objectives had associated indicators to measure progress and set targets. PSAs were scrapped by the Coalition Government with actions guided by structural reform plans (SRPs) and departmental business plans. The SRPs are aimed at delivering the reforms agreed in the Coalition Government, while the departmental business plans guide departmental activity and include a number of key indicators to track progress.

1.3.2 PRODUCTIVITY

For any given set of measurable and prioritised objectives it is necessary to understand how best to achieve these objectives. This requires a clear understanding of productivity – the link between the cost of outputs and the value of outcomes.

A clear understanding of productivity is necessary for cost-effective decision-making and to support and inform managers in making operational plans. Without objective data, decisions will always involve an element of guesswork.

EMPIRICAL SOCIAL RESEARCH

The empirical understanding required to change life outcomes is complicated. Governments need to understand the effectiveness of and often complex causal relationships between outputs and outcomes. It requires a significant investment in research time and resources. Ultimately, this calls for a revolution in the social sciences: changes in methodologies, growing acceptance of random controlled trials (RCTs) and large scale research.

- **Inputs** are the amount of resources required to generate an output, and measured in terms of their cost. i.e. hours worked, space rented, materials used.
- **Operational Outputs** are the item or activity generated by an input. Outputs are usually finite in number, easily measurable and can directly be influenced by government policy (i.e. flu vaccinations, training places, nurses).
- **Social Outcomes** are the change in society resulting from an output. Outcomes cannot be directly influenced and are usually harder to measure. However a change in society can be measured by using appropriate indicators. For example, the outcome 'improved health' can be measured by the indicator of life expectancy.

There are some encouraging signs: the research base for social outcomes is growing by the day, and departments are recognising the need to work closer together and become more cost-conscious. In the short term, departments should routinely check that projects and programmes are achieving the outputs and outcomes that were predicted. In the long term, government departments should invest in 'social research and development', to accelerate and direct research toward developing truly useful insights, relevant to public policy.

1.3.3 DECISION-MAKING

Decision-making should be informed by a clear understanding of objectives, and what works best to achieve the objectives that have been agreed as part of the political process. Both elected officials and public sector managers should use objective information on what works to supplement the other processes such as political mandate, experience, incentives and regulation involved in decision-making.

The business case and impact assessment process (both described in chapter four), informed by the Green Book (described in chapter three) aim to ensure that evidence about what works is given paramount importance when formulating public policy.

1.3.4 DELIVERY AND EVALUATION

In order to ensure that we learn from our experiences, we need effective evaluation. This should build on an existing base of knowledge about what works, for whom and why, in order to improve decisions over time. Where good policy has been identified, we need to be able to determine how we can improve implementation in order to maximise social value.

The quality of evaluation is particularly relevant in the context of the October 2010 Spending Review. To be fully effective, and to minimise the negative impact on public services and society, government cuts must be targeted at areas of wasteful spending, and the effectiveness of ongoing expenditure improved. However, despite the simplicity of this as a concept, and despite numerous anecdotal stories of government waste, these decisions are as difficult as ever without clarity over the effectiveness of spending in achieving outcomes.

1.3.5 INSTITUTIONS

Strong institutions are required to ensure that each of the processes outlined are followed. These need to be supported by an effective governance structure, otherwise decisions will be made inconsistently and we will fail to maximise social value.

Decision-makers need to be held accountable for both success and failure. Good spending decisions and effective delivery need to be rewarded to encourage innovation and the adoption of best practice. The NAO and PAC play a key governance role, providing an independent evaluation of policy and its execution. The Treasury acts as a focal point, in charge of resource allocation but independent of departments.

1.3.6 APPROACH

In this report we have reviewed extensively how these five aspects of decision-making are carried out today. Our research in the UK and other countries has shown us that developing and delivering systematically effective policy requires achieving a high standard across all five areas. Our research has also

shown that the current machinery of government falls short of such high standards. To identify solutions we have reviewed best practice in other sectors, and other countries. In the following chapters, we will outline our proposals.

1.4 The problem

There have been a number of initiatives launched to emphasise the importance of value for money within Government. The Invest to Save Budget⁹ (ISB) was launched in 1998 by the Treasury and Cabinet Office to encourage innovation and partnership working in the delivery of public services. Total Place¹⁰ is a Local Government initiative that maps how public money from central and local bodies is spent in a given location. This information can then be used to identify savings, eliminate duplicated spend and to help deliver better public services. These initiatives have had some success, but it is unclear whether the overall value for money of public services has increased in recent years or not.

We surveyed 342 NAO reports and found a number of problems in the process required to maximise social value.

- 47 reports discussed outcomes and targets, of which 32 were critical
- 40 reports discussed productivity, of which 35 were critical
- 34 reports discussed cost-effective decisions, 27 of which were critical
- 12 of 15 reports regarding execution described unmet needs from inadequate delivery, 9 of 22 examples described budget overruns and 10 of 16 reports found that targets were not met. The findings on delivery capability are supported by evidence from departmental capability reviews.

The broad pattern of these criticisms demonstrate the contrasting success at addressing efficiencies (budget overruns) compared with effectiveness (poor understanding of productivity).

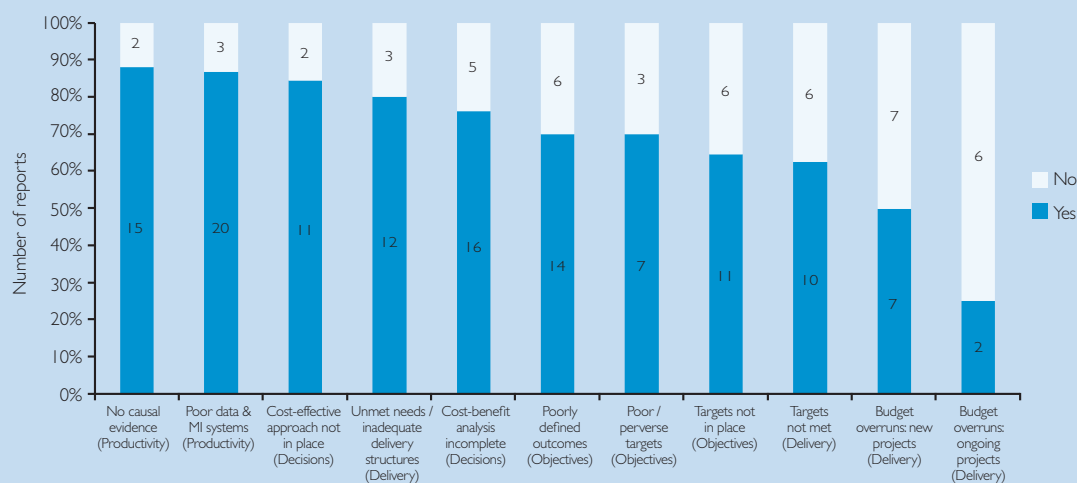
These criticisms are acknowledged by civil servants and observers of Government. While in some cases failings may be due to poorly articulated outcomes, a lack of understanding of productivity or inability to implement, more often we found that best practice is not pursued because of failings in the governance of such decisions. The weaknesses above are symptoms that stem from structural drivers.

This research suggests that there is significant evidence of inappropriate budgeting processes and poor governance, leading to spending decisions which represent poor value for public money. They are summarised below and addressed in more detail in later chapters.

9 <http://www.isb.gov.uk/hmt.isb.application.2/index.asp>

10 <http://www.localleadership.gov.uk/totalplace/about/>

Figure 2: Systemic failures in maximising social value: NAO criticisms



Source: A review of 342 NAO reports, December 2006 – March 2010

1.4.1 OBJECTIVES ARE OFTEN UNCLEAR AND NOT PRIORITISED

PSAs and SRPs are not without their flaws. Though PSAs were an important step toward avoiding vagueness and holding government to account for its performance in terms of outcomes, PSAs notably failed to articulate the importance of achieving one PSA over another, for example, improving health compared to promoting access to the arts.

The Coalition Government's Structural Reform Plans focus on changing the workings of government in order to improve outcomes, but the Government has so far not articulated clearly what those outcomes are.

Overall, the guidance over how public money should be spent is both too loose and too restrictive at different levels. At the highest level, leadership in government is vague about its ultimate aims and objectives, which leads to a lack of guidance for public servants across government, and a lack of alignment both within and across different departments and layers of government. This leaves a vacuum that is often filled with an unhealthy focus on operational rigidity and process over delivering outcomes, as illustrated by the operational targets introduced by middle management that often frustrate delivery teams.

1.4.2 A ROBUST UNDERSTANDING OF PRODUCTIVITY IS NOT USED SYSTEMATICALLY TO UNDERPIN DECISIONS

The UK government spends more per capita than any other government in Europe on ICT¹¹, in part to gather and analyse information on costs, outputs and outcomes. There are a number of constraints, such as data protection and inconsistent IT and reporting standards when trying to use this information to improve decisions.

11 The Conservative Party: *David Cameron lays out Open Government and Transparency plan*, 14 February 2010, accessed via: http://www.thegovmonitor.com/world_news/britain/david-cameron-lays-out-open-government-and-transparency-plan-23834.html

Chief among the shortcomings of government's expenditure decision processes is an unsophisticated use of evidence. Despite an explosion in the volume of easily accessible social science research, and rapidly improving techniques and approaches to social science experiments, national government (with significant exceptions) has been slow to incorporate this evidence in planning and public policy. Unfortunately we find that the Green Book's recommendations are more honoured in the breach than in the observance.

Related to this is government's notorious opacity about the cost-effectiveness of programmes. Managers at different levels have a wealth of information about programme costs and the outputs delivered, but this is poorly transmitted up and down the hierarchy of government and difficult for outsiders to obtain and scrutinise. Similarly, there is a great deal of inconsistency in how different government departments account for cost. Without knowing the true or prospective cost of a programme per output and ultimately per outcome, effective option appraisal is impossible.

1.4.3 DECISION-MAKING PROCESSES ARE NOT EFFECTIVELY ENFORCED

Where Green Book guidance is followed, it is followed inconsistently, weakening the use of the Business Case and Impact Assessment tools in option appraisal. Option appraisal is quickly narrowed to look at two or three policy options in detail, and analysis tends to begin after this point in the option appraisal process. We take as our starting point the view expressed by the Institute for Government that:

*"In practice, it is unclear to what extent performance information is used in spending reviews to support expenditure decisions."*¹²

Ministers are ultimately responsible for spending decisions, ensuring that decisions have a political dimension. Civil servants' and ministers rotate departments relatively frequently, every two to three years, limiting their experience in learning and improving what works. Incentives are not closely or objectively linked to cost-effectiveness. Personal incentives such as career impact and protecting departments appear to play a large role in decision-making. These factors serve to limit the influence of cost-effectiveness when making spending decisions.

1.4.4 DELIVERY AND EVALUATION IS INCONSISTENT

Government Departments have within them Value for Money (VFM) teams that are focused on improving the cost-effectiveness of service delivery. The NAO and the PAC provide independent evaluation over the implementation of policy.

12 The Institute for Government, *Public expenditure management: The spending reviews and the operational efficiency programme*, London: IFG, 2009 p.4; accessed via: http://www.instituteforgovernment.org.uk/pdfs/Spending_reviews_July2009.pdf

The review of spending decisions is neither timely nor sufficient. The lack of clarity over desired outcomes combined with a poor attitude towards evidence and effectiveness leads to spending programmes that are not clear enough about the outcomes they hope to achieve, the outputs that will deliver these outcomes, and the timescales in which these achievements will be realised. There is no systematic follow up to ensure that recommendations to improve services and improve value for money are implemented. Reviews by the NAO and the PAC are improving in their analytical quality, but are insufficiently protected from departmental interests and often come too late in the process to make a significant difference.

1.4.5 CAPABILITIES AND ORGANISATIONAL STRUCTURES ARE INADEQUATE

The remits of the NAO and PAC are too narrow to comment on spending decisions, and they currently lack the resources and capabilities to carry out such remits if they were to be extended. The availability of the financial and analytical skills required to understand cost-effectiveness varies across departments, and information sharing is limited because of poor communication as well as artificial constraints such as data protection concerns. Though a number of initiatives have tried to address silo mentality, departments continue to remain insular, focused on departmental outcomes and budgets and limited in their ability to take a cross-governmental perspective, often even where the will to do so exists.

1.5 The opportunity

Value for money is not only important from the perspective of fiscal responsibility; public spending is about improving people's lives. The social impact of transforming lives is better outcomes for the individual, their community and society, as well as reduced long-term costs for the state.

We know that we need to improve. Too much public money has been and is being wasted on ineffective and sub-optimal programmes because of a lack of clarity about what we want, and what works.

A number of 'evidence-based policy' initiatives have been gathering momentum both in the UK and abroad, for governmental and non-governmental organisations. And these give us many examples of best practice from which to draw.

In the US, the Washington State Institute for Public Policy (WSIPP) is a notable example: it is an independent organisation that evaluates policies based on the outcomes they are expected to deliver to society, and whose recommendations inform the state government's policy decisions.

“If the public sector had matched private sector productivity growth over the past decade, the quantity and quality of public spending could have been delivered for £60bn per annum less.”¹³

KPMG

13 Downey A, Kirby P, & Sherlock N, *Payment for success- How to shift power from Whitehall to public service customers*, London: KPMG, 2010

THE WASHINGTON STATE INSTITUTE FOR PUBLIC POLICY (WSIPP)

The WSIPP is an independent, non-partisan body established in 1982 and funded by the Washington legislature to meet the information and applied research needs of policy makers. It offers practical, university level research to assist legislative policy makers (who do not have recourse to the resources of the executive branch) in making informed judgments about important long-term issues facing Washington State. Its work has impacted policy in the fields of education, criminal justice, welfare, children and adult services, health and general government.

The team at WSIPP have an established research methodology which can be summarised in the following three steps:

- Reviewing and identifying what works, and importantly, what does not
- Assessing the benefits and costs of each option
- Testing a portfolio of implementation options

WSIPP's recommendations are based on full 'value for money' analysis, including effectiveness of an intervention based on systematic review of available empirical evidence and robust estimates of the cost of delivering the intervention, and a valuation of future benefits to the individual and the State.

The WSIPP offer policy makers a range of policy options, and legislators are required to review but not necessarily act upon the Institute's findings. However, with its mandate, access to data and research methodology, the WSIPP has had a tangible impact on the direction of policy and budget allocation.

The (closely-related) 'Social Return on Investment' (SROI) approach is being applied across a steadily increasing proportion of the third sector in Britain, demonstrating to funders a more rigorous approach to performance management, while attempting to capture the social and environmental impacts of public spending.

SOCIAL RETURN ON INVESTMENT (SROI)

The SROI Network is made up of key organisations involved in developing a range of approaches to SROI, united by common principles. These approaches are used extensively by the New Economics Foundation in its 'measure what matters' analysis and have influenced the UK Government's Green Book and its approach to SROI. This principles-based approach is particularly popular with the third sector.

SROI allows organisations to recognise and evaluate non-financial outcomes on the same basis as financial outcomes, and thereby demonstrate to funders that they have thought about the outcomes they want to achieve and the best way to achieve them.

The decentralised approach has both positives and negatives: though the principles underpinning the SROI approach are sound and sensible, interpretation of the principles varies. This allows each organisation to tailor its approach according to the capabilities of their organisation, but leads to inconsistencies when trying to compare alternative policy options.

Evidence has been used in this model to improve cost-effectiveness within the UK public sector. The National Institute for Clinical Excellence (NICE), for example, is a beacon of best practice in using clinical research to inform policy recommendations to the NHS.

THE NATIONAL INSTITUTE FOR CLINICAL EXCELLENCE (NICE)

The amount of money spent on health in the UK, and the cost of medical treatments, makes understanding cost-effectiveness in healthcare spending essential.

NICE is an independent organisation responsible for providing national guidance on promoting good health and preventing and treating ill health, based on the cost-effectiveness of treatments in achieving health outcomes. It has a remit limited to three areas of healthcare interventions; Public Health, Clinical Practice and Health Technologies.

Health outcomes are measured in terms of Quality Adjusted Life Years (QALYs). QALY is a common currency which NICE uses to value all health impacts. A person's health state is assessed according to the criteria below and given a score between 0 (dead) and 1 (alive in fine health), multiplied by his life expectancy at that point. The same is done for their health state post-intervention, and the value of the treatment is the difference in QALY score.

NICE's research work is delivered by specialists in the health sector who base their analysis on evidence from robust clinical trials, conducted to academic standards, and their analysis is conducted prior to a spending decision. The Institution's guidance takes into account both clinical effectiveness (how well it works) and cost-effectiveness (how well it works in relation to how much it costs).

NICE also considers the cost savings to the NHS as a result of a reduced requirement for future treatment. The calculation involves the estimation of health gains and the value of the health gains for the NHS, given the current cost of treatment. Long-term health cost savings often represent a significant part of benefits.

Once a topic is referred to NICE, stakeholders are consulted and specialists scope and draft guidelines on the use of the new health intervention. Each recommendation comes with a plan of action and implementation guidance. There is then another opportunity for consultation before final guidance or recommendations are issued to the NHS, and the NHS is under a legal obligation to offer the medicine and treatments that NICE recommends.

The common aim of these approaches is to maximise the desired outcomes produced by a given level of expenditure. They are based upon a clear definition of desired outcomes and the value of these outcomes to society, coupled with the tools to enable timely and accurate measurement of both outcomes and costs. The most effective of these approaches have the integrity and influence to change the spending decisions of institutions.

The Social Value approach recommended in this report is about improving lives, not simply numbers. Wasteful spending benefits neither the taxpayer, nor the recipient who could otherwise be benefiting from a more effective service. The 'Maximising Social Value' approach aims to influence policy toward that which actually delivers more of the outcomes that we seek. The aim is not to stifle innovative ideas that lack an evidence base; indeed those ideas that have a sound basis should be tested, evaluated and, if proven to be effective, rolled out much more quickly under social value approach. Nor is the aim a technocracy; politicians

and elected officials will always ultimately have the final say, but under a Social Value approach their decisions will be based on a robust appraisal of effectiveness.

It is widely acknowledged that the five main themes discussed in this report are necessary facets of good decision-making. These chapters use examples of good practice from around the world in public, private and voluntary sector organisations in the UK and abroad to develop detailed recommendations to improve the budget allocation and spending decision process.

The looming cuts in public spending give added impetus to our research and recommendations. If the spending of public funds continues to be determined as in the past, then reducing the deficit risks causing unnecessary damage, particularly to the vulnerable who are most reliant on state support and have fewest alternatives. However, if the Government begins to articulate clearly the social outcomes it wants to achieve and identifies the best ways to deliver them – through the social value for money approach – then improved social outcomes can be delivered alongside improved fiscal management.

Advances in technology and the availability of data mean that it is now possible to develop the analytical tools and capabilities required to overcome some of the challenges discussed in this report. The insights gathered from global best practice show that the cost-effectiveness of policies in achieving social outcomes can and has been achieved. Though the examples demonstrate this on a smaller scale than that proposed in this paper, the principles behind effective policy remain the same.

These spending cuts give the government a once in a lifetime opportunity to launch the approach with the urgency and momentum that it needs. Experience suggests that it is easier to reform institutions when there is a burning platform for change.

1.6 Structure of the report

This report is concerned with how government sets objectives and public spending priorities, the basis upon and rigour with which spending decisions are made and reviewed, and the effectiveness of the institutions and governance processes that support decision-making.

The report presents a detailed critique of the resource allocation and spending processes in government. Our recommendations include long-term recommendations, which involve structural changes in the machinery of government, and short-term recommendations that are simpler to achieve and will, we hope, support the public sector to make more effective decisions that protect social value in the context of cuts.

In this report we describe ways the Government can adopt these approaches to extend the principles of evidence-based policy making and improve resource allocation. This is in our view the key to maximising the social value of government spending – and so minimise the social cost of fiscal consolidation.

An overview of our recommendations and report structure is shown in the diagram overleaf.

Figure 3: Outcome-based government



CHAPTER TWO

Objectives

2.1 Introduction: Clarify objectives

Spending decisions are not made in a vacuum. The objectives and priorities of a Government play a significant role in how spending decisions are made. Without clear objectives, it becomes impossible to align people and institutions behind a shared goal, decision-makers are left with less guidance over how to spend limited resources to most effect, and it becomes difficult to hold them to account.

It is not enough simply to have clear objectives. Once a government knows the outcomes that it wants to achieve, it also needs to be able to prioritise between them. The list of potential goals in government is endless, but the government has only limited resources, and it must choose how best to allocate them.

Some outcomes are more important to achieve than others. If the government is able to appreciate the true value of different outcomes, it can determine their relative priorities, and articulate those priorities to decision-makers across government. Without a consistent understanding of the relative priorities of different outcomes, it becomes difficult for decision-makers to apportion funds most effectively, in pursuit of the most valuable set of outcomes.

Government objectives need to be cast in the form of social outcomes. Top level outcomes in areas such as health, education and criminal justice, should not be controversial and can be based on a consensus. In some areas these outcomes have already been defined; for example, the Quality Adjusted Life Year (QALY) (discussed in chapter three) captures outcome improvements in both life expectancy and quality of life. These can then be broken down in the subordinate outcomes (and at a lower level, outputs) that affect these two elements.

THE CONSEQUENCES OF UNCLEAR OBJECTIVES

The uncomfortable and challenging trade-off decisions necessarily made every day by Government are rarely acknowledged explicitly. This can lead to problems in how resources are apportioned and services are delivered:

- Politicians and officials focus predominantly on increases in government departments' resources – more policemen, more hospitals, more teachers – rather than on the improvements in social outcomes which these resources are supposed to produce.

- The different institutions of government are not aligned behind shared and consistent objectives.
- Policy makers, by being vague about the outcomes they want to achieve, are able to shift the goal posts and interpret outcomes to suit the policy, rather than designing good policy that fits with the evidence.

Without a very clear view of which outcomes are being aimed for, and how much we value them, there can be no consistent way of deciding how to apportion the available funds.

Under the previous Government, the Public Service Agreement (PSA) system was intended to ‘articulate the government’s highest priorities.’¹ However, we found a great deal of confusion about what these highest priorities were, both across government and within departments. In our review of NAO reports, we found that 32 of the 47 references to outcomes and targets were critical – hardly an endorsement of the PSA system. As the Coalition Government reviews the need for a statement of departmental objectives, it will clearly be important to avoid the flaws of the old PSA regime.

CHAPTER OVERVIEW

- Outcomes were often confused with operational *outputs*.
- There was no mechanism to prioritise objectives.
- Indicators were inappropriate to accurately measure outcomes.
- There were too many competing indicators and targets.

CHAPTER RECOMMENDATIONS

- The Government should articulate a clear set of outcomes that define its priorities.
- These outcomes need to be organised in a clear hierarchy, so that they are capable of driving a set of operational plans.
- Outcomes need to be ‘value-able’, and valued.
- The Government should establish a set of indicators to measure and quantify changes in these outcomes.

1 House of Commons Treasury Committee, *Treasury – First Report*, 20 November 2007, ch. 4; accessed via: <http://www.publications.parliament.uk/pa/cm200708/cmselect/cmtreasy/55/5507.htm>

2.2 How objectives have been defined

Table: Main Frameworks

	Purpose	Structure	Who sets them	Whose activity do they measure
PSAs <i>Public Service Agreements</i>	To articulate the Government's highest priority outcomes for the period.	A set of 30 priority outcomes for government, measured by around 150 indicators. ²	PSAs were determined as part of the Spending Review process.	Each PSA is assigned to a lead department. Other departments are 'key delivery partners'. Responsibilities for achieving PSAs cascade down, to LA level.
DSOs <i>Departmental Strategic Objectives</i>	Departmental objectives set in order to achieve PSAs and other departmental goals ('the broader business of government' ³).	A total of 103 DSOs. Different Departments have different numbers of DSOs and associated indicators.	The Treasury set some DSOs, usually those linked to PSAs. Departments also set some DSOs.	The work of departmental civil servants within individual departments and associated executive agencies.
LAAs <i>Local Area Agreements</i>	Indicators which measure local authorities' performance.	Local authorities can choose 35 key priorities from a set of 198 national indicators.	Central government by agreement with individual local authorities.	Local authority public officials and local partners.
SRPs <i>Structural Reform Plans</i>	To support the implementation of reforms set out in the Coalition Agreement.	Fourteen one for each major office of government. Each SRP will discuss around five areas for reform.	Departments write SRPs in conjunction with Treasury Spending Review submissions and the Coalition Agreement.	The work of civil servants in delivering public service reforms.

The previous Government put in place a structure for describing what it considers to be its highest priorities. PSAs were intended to articulate the Government's highest priorities at the national level. Departmental Strategic Objectives (DSOs) articulated departmental objectives, while Local Area Agreements (LAAs) set the objectives for local authorities. These three frameworks articulated the Government's objectives, and monitored progress towards achieving them in the form of targets.

² This includes a number of foreign affairs objectives and indicators which are classified and so estimated here.

³ House of Commons Treasury Committee, *The 2007 Comprehensive Spending Review: First Report of Session 2007-2008*, accessed via: <http://www.publications.parliament.uk/pa/cm200708/cmselect/cmtreasy/55/55.pdf>

A BRIEF HISTORY OF CSRs, PSAs AND DSOs

A new performance management framework was put in place by the previous Labour Government during the first Comprehensive Spending Review (CSR) in 1998. They created approximately 600 Public Sector Agreements (PSAs), split between those for which particular departments had sole responsibility and those for which a number of departments were responsible. This was reduced to 110 PSAs with 500 indicators in 2004. The unwieldy number of government outcome objectives and the buck-passing of responsibility for the joint agreements was criticised in a number of Treasury Select Committee Reports.

In response to these criticisms the PSA structure was revised again in 2007. There were 30 PSAs in the 2007 CSR, with 150 corresponding indicators. Each PSA lasted for three years, and clearly stated which department held the lead responsibility for its achievement. In addition, there were 103 DSOs established to organise business within departments.

The incoming coalition Government has announced the abolition of PSAs, and replaced them with Structural Reform Plans.

2.2.1 OBJECTIVE SETTING IN THE PAST

PSAs were an attempt to articulate the government's highest priorities. They were usually not controversial, and intended to unite government departments behind common aims, encouraging them to work together. There was a clear hierarchy of responsibility: the development of PSAs was overseen by the Treasury, each PSA had a lead department assigned to it, and most departments were responsible for delivering more than one PSA. For example, PSA 18 (*Promote better health*) was assigned to the Department of Health, while PSAs 23 and 25 (*Make communities safer* and *Reduce the harm caused by alcohol and drugs*) were assigned to the Home Office, though the Department of Health was also a contributor to PSA 25.

Each PSA was backed by a delivery agreement. This document defined the PSA, explaining how it would be measured and the strategy by which it would be achieved. This included a list of indicators used to measure progress. For example, indicators for PSA 23 included *'the level of proven re-offending'*, *'the level of serious crime'* and *'the perception of crime as a problem in the local area'*. These indicators would each be measured, and have targets associated with them. The delivery agreement detailed how departments, local authorities and other agencies should work to achieve the target. Each of these agencies usually had their own associated targets.

Department-led DSOs were introduced at the same time as PSAs, representing a larger and more comprehensive list of government priorities. Usually, the DSOs contained many more indicators than their aligned PSAs. For example the Department of Health PSA 18 *'Promote better health and wellbeing for all'* has 5 associated indicators, whereas the aligned DSO 1 had a further 18 indicators, making a total of 23. Other DSOs focused on departmental operations, such as the police force, or border security.

National Indicators for local authorities included 198 indicators, including most PSA and many DSO indicators. Local authorities were asked to select 35 priority indicators out of the list of 198 and set their own targets.⁴ Responsibility for delivery against these ‘top 35’ indicators was held by the local authorities and their local partners. Each ‘local partner’ organisation also had its own list of targets and indicators.

The consequence of PSAs, DSOs and LAAs led to an overcomplicated array of indicators and metrics, most with their own targets. These indicators and metrics would branch out to create various operational target frameworks in different organisations. Targets were essentially re-interpreting DSOs to make measurement more manageable. These targets would guide managerial and operational decisions, but without prioritising between operational output targets and the higher priority outcome targets.

Setting (mostly operational) targets under the previous government was a resource-intensive process, led by the Treasury. Funding was linked to certain PSA related targets, and managers were able to choose the targets that they prioritised. This process evolved over the last decade, changing its focus over time. Often the sense of who was doing what, for whom and why, was lost.

2.2.2 OBJECTIVE SETTING UNDER THE COALITION GOVERNMENT

The Coalition Government has abolished PSAs, and replaced them with Structural Reform Plans (SRPs):

‘Structural Reform Plans are the key tool of the Coalition Government for making departments accountable for the implementation of the reforms set out in the Coalition Agreement. They replace the old, top-down systems of targets and central micromanagement.’⁵

The Structural Reform Plans and departmental business plans outline how each department will implement proposals, with each department responsible for delivering a number of key reforms. The plans contain little that is focused on measuring life outcomes; the vast majority of actions are related to delivering efficiencies in current public service provision, and changing the way that the institutions operate and interact. It is hoped that this will lead to more effective policy delivery; however, the milestones in the plans are the deadlines by which time certain elements of key reforms must have been delivered, rather than the social outcomes achieved by the reforms.

4 DCLG, *National Indicators for Local Authorities and Local Authority Partnerships*, London: DCLG, 2008

5 <http://www.number10.gov.uk/other/2010/07/structural-reform-plans-53023>, accessed September 2010.

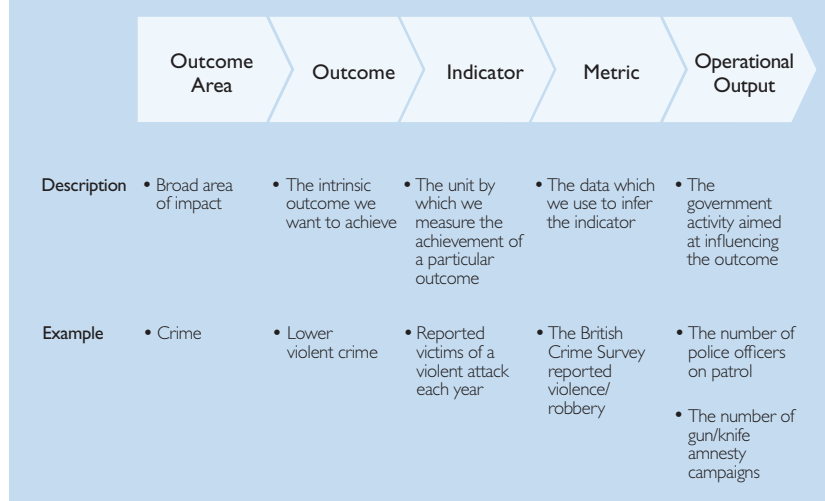
With SRPs, the Government is holding itself to account for delivering reforms to change the machinery of Government, rather than for the ultimate objective of improving the lives of citizens:

- The Department for Communities and Local Government (DCLG) SRP 2 related to housing aims to create more local housing trusts and incentives for local authorities to build more houses, rather than building the houses themselves.
- The Government's review of 192 public bodies (QUANGOS) was criticised by the PAC for being unlikely to deliver the reduced costs and improved accountability that were the original aim of the reforms.

It is still early for the new Government, and it may be right to focus on reform in order to improve outcomes in certain areas of policy. However, it is clear that the SRPs emphasise reform as opposed to the end state that these reforms are intended to deliver, and they suffer from many of the same problems as the previous Government's PSA framework.

2.3 Weaknesses of the past and current systems

Figure 4: Outcomes, Indicators and Outputs



2.3.1 OUTCOMES ARE CONFUSED WITH OUTPUTS, OR WITH DELIVERING REFORM

The main objective of government expenditure should be to deliver a set of desired social outcomes. These can include better health, improved education and security. Such outcomes are ever-present, always relevant and uncontroversial – while their relative priorities will remain a matter for political debate.

The Coalition Government has introduced SRPs and Departmental Business plans. They focus on creating the right conditions to secure desired outcomes, but fail to clearly articulate the outcomes themselves. These frameworks are inherently transitory; once they have been delivered, the Government will need a new system to hold itself to account.

The Government needs to articulate the purpose behind their structural reforms in order to objectively assess their performance. Without outcome-based objectives, how can the Government be held to account for improving the lives of its citizens?

The Coalition Government has abolished PSAs in part because they were seen as overly bureaucratic and operational. Though it remains unclear exactly what will replace them as definitions of government objectives, it is clear that PSAs were not without their flaws.

The PSAs attempted to articulate the highest priorities of government, but too often failed to make the distinction between outcomes and outputs. They conflated a managerial framework, focusing on operational outputs with an outcome-based framework designed for resource allocation. This distinction is very important, but too often it is not made. A government has operational *control* over outputs: it can change its activity in order to influence waiting times in hospitals, the number of police on our streets, and the number of job seekers in employment programmes, but it can only *influence* public health, public safety or the employment rate. Nonetheless, in all cases such outcomes are the ultimate objectives of policy. In as far as is possible they should remain distinct from the operational outputs of government activity.

The original PSAs were mainly process targets (51 per cent) and output targets (27 per cent) with a relatively small proportion of outcome targets (11 per cent)⁶. This pattern was repeated in DSOs and LAAs, for example:

- PSA 21: ‘Build more cohesive, empowered and active communities’ was too vague and poorly defined to be a useful outcome. The words cohesive, empowered, active and communities require clarification before the outcome becomes measurable.
- Similarly, National Indicator 110 for PSA 14: ‘Young people’s participation in positive activities’ is vague and not easily measureable.
- PSA ‘Target 10’ (2002): ‘Reduce the rate of re-convictions of all offenders punished by imprisonment or by community supervision’; focuses on sentencing, without considering the effectiveness of these sentences on public safety.
- Similarly, DCSF DSO 2: ‘Safeguard the young and the vulnerable’, indicators 66 and 67 refer to ‘the review of child protection cases within required timescales’ focusing attention on the number of reviews, rather than the outcomes from those reviews.

6 OECD, *Outcome-focused Management in the United Kingdom*, London: OECD, 2002, p.1

“The Cabinet Office Capability Reviews have shown that few departments have a strong focus on outcomes, with departments overall scoring an average of 2.5 out of a maximum of 4 on ‘focus on outcomes’.⁷ Only 1 of 22 departments was found to be ‘strong’ in the area – the Department of Constitutional Affairs, now Ministry of Justice – with more than a third of departments found with ‘significant weaknesses in capability.’⁸”

The 2007 Spending Review increased the balance in favour of outcome based indicators.

This odd mix represented a lack of structural and operational clarity of what the Government needed to deliver, to who, by whom, and why. The PSA system has given rise to a list of outcomes which often is not measurable or useful, conflates the desired result with the operation necessary to achieve it, and gives rise to too many, often conflicting targets. It presumed a high level of understanding about the causal relationship between operational metrics and outcomes. However, that level of understanding simply did not exist.

2.3.2 NO MECHANISM TO PRIORITISE OBJECTIVES

Outcomes today are often valued inconsistently, according to departmental biases or in response to media or political pressure, rather than to consistently support substantial change in social outcomes where there is a need. This approach to valuation is inconsistent and not transparent. Values adopted by one government department or decision-maker are ignored and altered by another with little effort in ensuring consistency.

Government needs to build a hierarchy of outcomes in order to allocate resources effectively between them. Without this hierarchy, the government is likely to spend too much on things that people do not value, and too little on the things that they value greatly. Decision-makers will not have the guidance they need to make effective spending and operational decisions. Government must guide spending-decisions by prioritising outcomes across departments, within departments and toward certain groups or individuals.

Managers within departments have no straightforward or consistent way of prioritising or valuing outcomes outside of their department. They often do not even have visibility over the impact that their work has on other areas of policy. It is clear that effective prisoner rehabilitation can have an impact on outcomes outside of the criminal justice system; employment, education and

7 Institute for Government, *The state of the service*, 2009 p.43, accessed via: http://www.instituteforgovernment.org.uk/pdfs/state_of_the_service.pdf

8 Civil Service, *Capability Reviews, an overview of progress and next steps*, London: The Stationery Office, 2009

the costs of social care can all fall⁹. But as things stand, prisoner rehabilitation programmes are measured primarily by their impact on recidivism, with no recognition of what they might contribute to each of these other areas. By understanding the value of outcomes in terms of their fiscal, economic and social value, departments will be better equipped to recognise the wider impact their activity has on society (see ‘valuing outcomes’ in the chapter appendix).

Other than the budget allocation in the spending review, government has no consistent mechanism for prioritising objectives either within or across departments. The risk is that cuts are made to programmes in education, health or welfare with little clear evidence on the outcomes that current spending in each of these areas delivers to society.

The Coalition Government has prioritised deficit reduction and structural reform since coming into power. This is a valid objective at the top level of government and changes to departmental budgets give an indication of changing priorities. However, there is limited guidance over how to implement these cuts when making decisions within departments, or at local authority level.

Under the previous Government, prioritising objectives was also a problem. Achieving economic growth (PSA 1) and increasing employment opportunities for all (PSA 8) sat on the same list (suggesting a similar priority) with delivering the Olympic Games successfully (PSA 22). A similar argument can be made within departments: DSOs in the DCLG combine housing and economic regeneration with community cohesion. The Department for Work and Pensions (DWP) initially gave little guidance on the relative importance of employment, education or training for young people classed as ‘NEETs’ (young people not in education, employment or training) but it is now becoming more evident that employment is the more valuable outcome for the government.

Targeting services toward those that are most in need, where an intervention (all things being equal) will make the most difference, is a better use of resources. Governments prioritise resources at a macro level through spending programmes aimed at certain groups. For example, the child poverty PSA meant that more government resources were directed toward low income families with children. However, this becomes more difficult when personalising services (and resources) at the individual or family unit level. For example, SureStart, a major government initiative aimed at disadvantaged children was criticised for allowing the ‘middle class capture’¹⁰ of resources. Steps are being made in the right direction, and this presents an opportunity to make decisions in the pursuit of outcomes rather than the allocation of budgets. One recent positive example is The Work Programme proposed by the DWP. This will have differentiated payments for providers, with higher payments for helping those farthest from the labour market.

9 St Giles Trust, *Through the Gates*, London: St Giles Trust, 2009; see also New Economics Foundation, *Unlocking Value*, London: New Economics Foundation, 2008

10 Prevention Action, *Isn't it time to start finding out if Sure Start children's centres work?* accessed via: <http://www.preventionaction.org/prevention-news/isnt-it-time-start-finding-out-if-sure-start-children-centers-work>

2.3.3 INAPPROPRIATE INDICATORS

Outcome Indicators help us to identify when a change has occurred in society, however meaningful indicators for desired outcomes can be challenging to identify. If indicators are too narrow or operational, they risk skewing priorities. If they are too vague, they become difficult to measure to the point of not being useful. Operational output targets are easier to achieve, being as they are directly controlled by government activity. Independently monitored social outcomes on the other hand can only be influenced by government action.

PSAs were underpinned by a set of national indicators; these were of prime importance in determining government action. They were a mixture of societal outcome measures and operational output measures. Their associated targets drove a significant amount of government activity at the operational level. The government struggled to identify meaningful indicators, because of the challenges outlined in the paragraph above.

Operational or 'output-based' indicators can skew priorities.

Poorly articulated outcomes combined with an array of operational output targets led to many managers and delivery staff focusing on delivering outputs over outcomes. Priorities were skewed toward government activity (i.e. addicts in rehabilitation), and away from outcomes (i.e. former addicts free from addiction).

The criticism of indicators being too operational was often levelled at health and addiction-related PSAs, where indicators referred to waiting times for operations, screening targets and the level of access to rehabilitation programmes¹¹. Outcome related alternatives would be, for example, survival rates, infection rates and the number of reformed addicts.

In criminal justice, a current indicator to measure success for restorative justice includes getting in touch with victims, whereas the more relevant measure would be participation in the reconciliation process. It is easier to focus on the former as an output, but the latter is much closer to the ultimate outcome of reconciliation.

Vague indicators are difficult to measure and fail to align activity

Poorly defined indicators do not represent good measurements of social outcomes. Indicators which are vague or which are poor proxies can often lead to a subjective interpretation of the necessary course of action, which in turn leads to poor results.

Many of the PSA outcomes were unhelpfully 'broad [and] sometimes quite vague.'¹² On the other hand, focusing on the outcome can lead to

¹¹ National Indicator Set #40: 'Drug users in effective treatment'

¹² Social Market Foundation, *To the Point: A Blueprint for Good Targets*, London: Social Market Foundation, 2005, p. 34

indicators that are so vague so as to be impossible to measure. The handbook of definitions for the national indicator set ran to 438 pages¹³, with a number of indicators requiring two pages of definitions to clarify measurement.

A number of indicators were described to us as problematic because they were poorly defined or self-assessed, and therefore results would be dependent upon interpretation. For example, PSA 14: ‘increase the number of people on the path to success’ is measured by people’s participation in positive activities. Both participation and positive activities need to be more clearly defined before they become measurable. The emotional health of children and adults is self-assessed, making it more challenging to objectively identify improvement.

The subsequent definitions required to clarify vague indicators can also cause problems. For example, the indicator for PSA 16: ‘Increase the proportion of socially excluded adults in settled accommodation and employment, education or training’ has a narrow definition of socially excluded adults. Although it includes many socially excluded groups, this means that harder to reach groups – for example those not in touch with government support services, the homeless and the long-term unemployed – are omitted. These groups present the highest need (therefore reaching them represents the highest imperative), yet the difficulty of measurement means that progress with such groups is not accounted for.

Now that PSAs have been abolished it must be clarified which indicators the Government will rely on as measures of success.

Departmental business plans articulate some of the key indicators, and they appear to have taken the legacy of the PSA regime as starting point. The benefit of this is that they are learning from the development of PSAs over ten years. The downside is that they suffer from many of the same flaws as the PSA regime, and the criticisms made in this report still apply. For example, the Pupil Premium, to be introduced by the Department for Education, increases ‘inputs’ by £430 per poor pupil, without directly linking this to outcomes.

The measure of success for SRPs is based on the delivery of reform by a certain deadline. The indicator is of the rate of change of government. The risk is that the focus becomes the delivery of reform without full consideration of the consequences and confusing the reform with the end state it is supposed to achieve. There is also a risk that the Government has now over-compensated in its desire to avoid targets.

There are many potential metrics against which we can choose to measure outcomes. The challenge and ultimate aim should be to identify a small set of

13 DCLG, *National Indicators for Local Authorities and Local Authority Partnerships: Handbook of definitions*, accessed via: <http://www.communities.gov.uk/documents/localgovernment/pdf/543055.pdf>

approximately three indicators that align closely to the desired outcomes. Other metrics may be useful for management and deciding how best to go about achieving outcomes in a given local area or level of management. While accurate and relevant indicators can be challenging to identify, with sufficient thought they can be achieved.

2.3.4 TOO MANY INDICATORS AND TARGETS

According to a number of senior civil servants, the competing frameworks of PSAs, DSOs and LAAs were often misaligned and created an impression of many conflicting priorities for public sector workers.

The number of PSAs, official indicators and their targets fell over the term of the previous Government. The total number of indicators in May 2010 was 198, as defined in the National Indicator Set.¹⁴ However, at the same time as PSAs becoming more concise, the number of Departmental Strategic Objectives, local authority objectives and their associated targets was growing: the result was that public servants faced a confusing range of objectives across different levels. Departments often felt pushed into a corner with conflicting targets which could not all be achieved, damaging morale.

Another issue with ‘target overload’ is that there are hundreds of reasons to prevent any reallocation of current spending: when there are operational targets to be met, managers cannot re-direct resources away from ‘the current project’. Without a clear hierarchy to guide prioritisation, and lacking the resources to meet all of these competing (sometimes conflicting) goals, managers are often left in an impossible situation.

“A target to reduce A&E waiting times to four hours appears reasonable. However, the response from some hospital managers when it was introduced was to create an ‘admissions ward’ or in at least one extreme case to have patients wait in the ambulance if the A&E was extremely busy.”

Senior civil servant

Targets can have a very powerful impact on behaviour. This was initially underestimated by Government, and in many cases this led to a focus on chasing a small number of readily-measurable managerial indicators. At best this was inefficient, and at worst it created perverse incentives which may actually have worsened outcomes for society as a whole.

For example: the indicator ‘*Initial Assessments for children’s social care carried out within 7 days of referral*’¹⁵ focuses managerial effort on fast assessments, rather than accurate assessments. Targets that fail to account for variation in the value of different outcomes lead to excessive focus on low value, easy-to-achieve outcomes. The problem of ‘parked’ clients under the Flexible New Deal was often highlighted by disability groups.

14 Institute for Government, *Mapping the national indicator set*, accessed via: <http://www.instituteforgovernment.org.uk/content/26/mapping-the-national-indicators-onto-relevant-psas-and-dsos>

15 National Indicator Set, #59

Similarly, a target for sanction detection set by the Home Office to increase the number of people brought to justice (conviction / caution) led to an increase in the number of arrests of young people. The fact that all crimes were scored equally meant that police were incentivised to focus on low level crimes that were easily sanctioned, over more serious crime. This was in direct opposition to a target shared by the Ministry of Justice and the Department for Education to reduce the number of first time entrants into the Criminal Justice system.

GOODHART'S LAW

The problems with targets are well acknowledged in the literature. Goodhart's Law states that 'When a measure becomes a target, it ceases to be a good measure'. Hood (2007) identifies three potential effects arising from the use of performance targets:¹⁶

- Ratchet effects can occur where workers are expected to hold actual production below the production-possibility frontier if they expect target-setters to raise future targets based on current observed production (also known as sand-bagging).
- Threshold effects occur where there are incentives for employees to concentrate their efforts on reaching the minimum levels specified by targets rather than exceeding those levels.
- Output distortions can occur where there is an incentive for employees to concentrate their efforts on achieving success in the specific targets being measured at the expense of other important objectives that are not included.

The Coalition Government aims to reduce the number of operational targets and indicators. This is reflected in a number of the departmental business plans and is part of a wider programme aiming to reduce bureaucracy in the public sector. These steps are intended to increase operational freedom, but the implementation of these changes will be important. The government will still need to provide guidance for decision-makers, articulating appropriate objectives in a clear hierarchy to guide decision-makers toward activity that achieves desired outcomes. Without clear outcomes to guide objectives, it will always be possible for short-term targets to corrupt behaviour.

2.4 Recommendations

We propose that the Government establish clear practical distinctions between social outcomes, indicators of these outcomes and managerial targets for operational outcomes. If successful they will be able to align all public sector employees behind a shared set of objectives, and better channel the activity of the voluntary and private sector in the pursuit of positive social outcomes. By

16 Hood C, *Public service management by numbers: Why does it vary? Where has it come from? What are the gaps and the puzzles?*, Public Money and Management, 2007, accessed via: http://www.cipfajobs.com/pt/pmm/download/sample_article_PMM_Hood_april2007.pdf

focusing on social outcomes, we will be able to start to think of government departments as ‘just another provider of services’ (though clearly with massive expertise and experience) which move us towards the key outcomes.

1. **The Government should articulate a clear set of outcomes that define its priorities.** These outcomes must reflect a change in society, rather than a change in government activity. The proposed structural reform plans will not on their own hold the government to account for improving the lives of its citizens. The Government needs to state its objectives as a comprehensive and relevant set of clear outcomes. It can use the PSAs from the last Government as a starting point, but articulate the desired genuine outcomes while omitting references to operational metrics and targets.

Outcomes must articulate what it is that society ultimately values, and not the measurement of outputs from public services, as is often the case today. In order to be able to guide policy, it also needs to be more granular and specific than a top-level well-being index, while avoiding a cascading set of detailed targets.

Having clear outcomes causes us to concentrate on the broad social interests of society, rather than the activity of government.

The current set of PSAs and DSOs are a good starting point. A lot of effort has already gone into developing a set national of indicators. The key is to build on this work to improve and develop this structure so that it supports policy decisions, distinct from operational management. The following example from the State of the USA demonstrates that with sufficient thought, it is possible to develop a clear and appropriate hierarchy of outcomes.

BEST PRACTICE: CLEAR OUTCOMES – STATE OF THE USA

The ‘State of the USA’ website allows citizens to compare their local outcomes to outcomes in other areas, through a range of standard indicators. In the area of health, the indicator set is divided into “Health Outcomes”, “Health-Related Behaviours” and “Health Systems”.

The table below describes the ‘State of the USA’ indicators.

Table: State of the USA

Category	Outcome
Health Outcomes	Life Expectancy at Birth
	Infant Mortality
	Life Expectancy at Age 65
	Injury-Related Mortality
	Self-Reported Health Status
	Unhealthy Days, Physical and Mental
	Chronic Disease Prevalence
	Serious Psychological Distress

Category	Outcome
Health-Related Behaviours	Smoking Physical Activity Excessive Drinking Nutrition Obesity Condom Use
Health Systems	Health Care Expenditures Insurance Coverage Unmet Medical needs Preventative Services Preventable Hospitalisations Childhood Immunization

This system relies on having a well defined hierarchy of the outcomes the government wants to achieve.

- 2. Outcomes, once defined, need to be organised in a clear hierarchy, so that they are capable of driving a set of operational plans.** These plans should be evaluated against how effectively they deliver outcomes, not how they meet a set of arbitrary targets. The amount of effort that needs to be invested in a clear hierarchy of outcomes and indicators is not to be underestimated.

For indicators to become effective management tools in guiding public service action, they need at some point to be translated into operational metrics. However, these operational metrics must be subordinate to and separate from national outcome indicators. We must recognise that such operational metrics are driven by the choice of how to deliver the outcome, rather than the choice of outcome itself. Defining outcomes and their relative priorities is the role of elected politicians, while determining the most cost-effective way to achieve these outcomes is the role of managers and practitioners who oversee delivery.

- 3. The Government should establish a set of indicators to measure and quantify changes in these outcomes.** Outcomes and indicators should be comprehensive yet relevant: sufficient to give a realistic picture of the government's overall agenda while still being manageable; similarly these indicators should not make any reference to government activity.

Indicators that define outcomes must also measure change in society and not organisational outputs. For example, the indicator for PSA 25 was 'the number of drug users recorded as being in effective treatment'. This is in fact an operational indicator – an output from the system. In order to focus on the key

social outcomes the relevant indicator would be ‘The number of drug addicts (with more specific indicators relating to different kind of drug-taking)’.

The ONS should set up an independent monitoring process to track the indicators associated with each outcome. (See chapter 6)

BEST PRACTICE: INDICATORS – STATE OF THE USA

‘Health Systems’ are mainly output indicators whereas ‘Health-related behaviours’ and ‘health outcomes’ are genuine outcomes. The Health USA outcomes described above are each supported by a clear indicator, each of which has been carefully chosen to be measurable. The definition is clear and unambiguous in each case.

Table: State of the USA

Outcome	Indicator
Life Expectancy at Birth	Number of years newborn is expected to live if current mortality rates apply
Infant Mortality	Deaths of infants aged under one year per 1,000 live births
Life Expectancy at Age 65	Number of years of life remaining to a person at age 65 (on the basis of current mortality rates)
Injury-Related Mortality	Age-adjusted mortality rates due to intentional or unintentional injuries
Self-Reported Health Status	Percentage of adults reporting fair or poor health
Unhealthy Days, Physical and Mental	Mean number of physically or mentally unhealthy days in the past month
Chronic Disease Prevalence	Percentage of adults reporting one or more of six chronic diseases
Serious Psychological Distress	Percentage of adults with a score of 13 or more on the K6 scale

An ideal indicator will avoid introducing perverse incentives, and be clear, transparent and comprehensive in the way in which it portrays outcomes.

The QALY is a very good indicator. It combines a simple measure of the length of life, and an easily understood measure of quality of life, the EQ-5D described below. This took time and effort to develop, but has broad consensus from the medical community as an objective measure of health quality.

BEST PRACTICE INDICATORS: THE QALY

Medical impacts are measured in terms of Quality Adjusted Life Years (QALYs). They are measured from the perspective of the patient (not carers or family members).

QALY is a common currency which NICE uses to value all health impacts. A person’s health state is assessed according to the criteria below and given a score between 0 (dead) and 1 (alive in fine health), multiplied by the patient’s life expectancy at that point. The same is done for their health state post-intervention, and the value of the treatment is the difference in QALY score.

Table: Components of a QALY EQ-5D

Outcome	Indicator
Mobility	1. No problems walking about 2. Some problems walking about 3. Confined to bed
Pain/discomfort	1. No pain or discomfort. 2. Moderate pain or discomfort. 3. Extreme pain or discomfort.
Self-care	1. No problems with self-care. 2. Some problems washing or dressing. 3. Unable to wash or dress self.
Anxiety/depression	1. Not anxious or depressed. 2. Moderately anxious or depressed. 3. Extremely anxious or depressed.
Usual activities (work, study, housework, leisure activities)	1. No problems in performing usual activities. 2. Some problems in performing usual activities. 3. Unable to perform usual activities.

To use just one indicator would be misleading. The question is how to combine indicators to allow for an accurate and transparent picture of how well we are doing in achieving outcomes.

In most cases the ideal indicator will be inferred from empirical data. We can combine different metrics to produce an indicator, and to create an index. Alternatively, we can use the ‘ideal indicator’ alongside associated metrics to help identify the best way to achieve outcomes in a given area.

There needs to be a hierarchy that links all relevant indicators and metrics to the top level outcome.

This is to help managers make decisions that contribute to the top level outcome, and to understand how their activity contributes to achieving an outcome. This allows activities to be valued based on the extent to which they influence an outcome.

- 4. Outcomes need to be ‘value-able’, and valued.** We propose a radical, yet rational way to think about valuation. The Government must begin to recognise the impact that change in an outcome has on public finances, the economy and society, by valuing outcomes in terms of their fiscal, economic, and, where possible, their social impact. These valuations can be used consistently across all departments, and potentially be made public.

Valuing outcomes can be controversial; however, Government makes *de facto* valuations of outcomes all the time in their spending decisions. We believe that the valuing process will *increase* the focus on many outcomes. Departments will appreciate the impact of improved outcomes on reducing all public sector costs, including outcomes outside of their department and discount outcomes appropriately for outcomes that are delivered far into the future. Departments will be able to make consistent trade-off decisions in the pursuit of shared objectives.

A list of outcomes will tell us what we should spend our money on, but not how much. Governments routinely decide in budget settlements how much taxpayer money they are going to give to different areas. In some areas, the government is already valuing specific outcomes. If valuation becomes more systematic and explicit, it will help to avoid budget omissions (failing to fund a policy we collectively value) and budget mistakes (funding policies that do not deliver, or deliver minor outcomes).

We propose that the Government values outcomes in terms of their fiscal impact, economic impact, and, social impact. Where the social impact is intangible, the Government can either set an arbitrary figure or derive the social value from historic spending decisions and an estimate of productivity.

Valuing outcomes will allow departments (and other delivery partners) to build proposals that maximise outcome value against a set budget.

BEST PRACTICE VALUATION OF OUTCOMES – WSIPP

WSIPP converts outcomes into financial value based on the savings to taxpayers through reduced demand for government services and value that accrues to programme participants and wider society.¹⁷

Savings to individuals and society are measured through a combination of ‘hard’ monetary impacts and ‘softer’ quality of life estimates. Hard Impacts include lower insurance premiums, or reduced property damage / replacement costs avoided in the case of crime, or higher future earnings in the case of education. Quality of life estimates are linked in as much as is possible to financial measures, for example the willingness to pay to avoid a crime or punitive awards for the emotional damages cause by a crime.

Example: Value of Education

The WSIPP model the benefits of education in a ‘human capital’ framework, where increased test scores are estimated to ‘generate monetary benefits, beginning at age 18 when the student would begin to be attached to the labour market’.¹⁸

17 AOs S, Miller M, Mayfield J, *Benefits and Costs of K–12 Educational Policies: Evidence-Based Effects of Class Size Reductions and Full- Day Kindergarten*, Olympia: Washington State Institute for Public Policy, 2007

18 Ibid

A programme participant whose educational outcome improves will have one distinct and measurable outcome: increased lifetime net earnings.

A range of estimates for the values of outcomes are derived from economic research. The research underpinning softer outcomes is less robust than for the direct outcomes. Hence WSIPP conducts sensitivity analyses to account for this uncertainty.

In addition, WSIPP also estimate the non-earnings outcomes: for example, programmes aimed toward those at risk of social exclusion may see other benefits from improved education. These can include reduced criminal justice costs, lower health care costs and reduced foster care costs. They are sometimes estimated by a multiplying the savings from the primary outcome: crime.

WSIPP breaks down the sources of valuation in some detail across the impacted groups. Consider this (illustrative) example from the research into child welfare.

Programme participant	Taxpayer	Non-taxpayer
<ul style="list-style-type: none"> Education effect on lifetime earnings Medical and Mental Health impacts Quality of Life impacts, such as alcoholism and car crashes Substance abuse impact 	<ul style="list-style-type: none"> Criminal Justice processing Education cost of students repeating year Public cost of services associated with Child Abuse and Neglect Foster Care costs Substance abuse cost Welfare administration 	<ul style="list-style-type: none"> Reduced crime victimisation

These different sources are then quantified:

Benefits by area	Primary Programme Recipient			
	Benefit and costs from different perspectives			Total
	Programme participants	Non programme participants as: <i>Taxpayers</i>	<i>Non-taxpayers</i>	
Crime	\$0	\$6,282	\$10,991	\$17,273
High School Graduation	\$10,723	\$4,773	\$2,699	\$18,195
Test Scores	\$5,913	\$2,632	\$1,489	\$10,034
K–12 Special Education	\$0	\$168	\$0	\$168
K–12 Grade Repetition	\$0	\$216	\$0	\$216
Child Abuse and Neglect	\$2,574	\$530	\$0	\$3,103
Out-of Home Placements	\$1,518	\$312	\$0	\$1,830
Alcohol (disordered use)	\$92	\$49	\$2	\$144
Illicit Drugs (disordered use)	\$38	\$23	\$0	\$60
Total Benefits*	\$13,427	\$12,041	\$13,692	\$39,160

* Note: total benefits may not equal the sum of the individual items because only one of the two human capital variables (high school graduation, test scores) is counted, and only one of the child welfare variables (child abuse and neglect, out-of-home placement) is counted.

For additional information on how to value outcomes and indicators, please see the chapter appendix.

2.5 Conclusion

Without clear, measurable, outcome-based objectives it becomes impossible for government to hold itself to account for improving the lives of its citizens. However, objectives alone are not sufficient because the potential list of objectives is endless. They need to be prioritised and organised in a clear hierarchy to guide decisions across all levels of government.

Despite its flaws, the PSA regime was an attempt by the previous Government to hold itself to account. Over time the government began to produce better definitions of outcomes and their indicators. It is not surprising that the previous Government did not identify the optimal set of outcomes and PSAs at first attempt. This takes time and experience. It should have trialled one area, and should also have been more realistic about the pace at which such an approach could be rolled-out and made effective. It tried to do three things at once: co-ordinate government departments, set objectives and define a management system with detailed operational targets. This was clearly more than any organisation could absorb effectively in one go.

The evolution of the previous Government's PSA regime demonstrates that developing clear outcome-based objectives, supported by measurable indicators that do not skew priorities will be no easy task. The amount of intellectual and managerial effort that needs to be invested in a clear hierarchy of outcomes and indicators is not to be underestimated.

However, the QALY health indicator demonstrates that with sufficient thought it is possible to, and senior civil servants should, address the task. It is the pursuit of valuable social outcomes that should guide the decisions of public sector managers, drive their operational planning and free practitioners to make sensible decisions in the field. This will help to align the different institutions of government and encourage them to work together in pursuit of shared objectives.

The timescales for achieving outcomes, measured in terms of changes in national indicators over a given period of time, will be dictated by what is feasible. This may require interim outcome targets to enable planning for long term outcomes. Operational output targets will monitor whether a department or contractor is sticking to its own plans. These targets will monitor only what the department is doing, and as such cannot be confused with knowledge of the outcomes which these actions are intended to achieve.

Public sector managers will require an evidence base of empirical estimates that show how outputs relate to outcomes and what impacts effectiveness for different service users. This is discussed in the next chapter.

Appendix 1: Valuing Outcomes

FISCAL, ECONOMIC, SOCIAL

It is important to distinguish where the costs and benefits lie from a change in outcomes. There are a number of ways in which we can break down outcomes (See WSIPP / SROI approaches). We propose breaking outcomes down into three categories:

Fiscal

The fiscal category measures the net present value of government spending to fund a programme and the savings that accrue to government departments through improved outcomes.

- How much does the programme cost?
- How much does the programme save?

Economic

The economic category records all financially measurable costs and savings to the population through a change in outcomes. For example; does the outcome have a measurable impact on an individual's wealth? If so, does it impact on their income or savings?

Examples:

- *Crime* – Reduced insurance premiums
- *Welfare* – Higher income through productivity and employment
- *Health* – Higher productivity
- *Education* – Higher income through improved results
- *Family* – Improved education which leads to higher future income

Social

The social category places a financial value on a definable utility cost or saving through a change in outcomes: does the outcome have an impact on quality of life and is there an agreed upon financial value to this impact? The QALY is an example of an indicator that measures 'social value'.

Examples:

- *Crime* – Reduction in fear of crime which may lead to higher investment, productivity and happiness
- *Welfare* – Higher self-esteem and self-worth through employment
- *Health* – QALY
- *Education* – Higher self-esteem and self worth possibly leading to higher incomes
- *Family* – Happier, stronger families leading to better health, economic and education outcomes

Social outcomes can be measured without being valued. The downside of this approach is that it limits the ability to compare and prioritise outcomes across different areas of social policy. The QALY is one example, using the unit of a QALY can support decision-making within the field of health. However, the QALY is limited in questions of resource allocation between, for example, health and education.

When measuring 'soft' outcomes (such as attitude, positivity, aspiration, inspiration, hope, self belief, self respect, etc) the key is to think how improving these factors could lead to measurable impacts in later life (such as improved education and employment, higher income, better mental and physical health, reduced crime and lower levels of addiction and welfare dependency).

SHOULD A GOVERNMENT BE VALUING OUTCOMES?

The government cannot avoid placing a value on outcomes, even if this is done only implicitly. Often these valuations are not consistent across or even within departments or offices. For instance, the value given to 'reduced waiting time' has understandably been given different values by the department for transport, the department of health and HMRC. To give another example: the new GP commissioners will soon be responsible for making decisions over whether to spend a limited budget on cancer drugs or care for the elderly. Clear guidance from NICE will be required to remedy inconsistency between or even within GP surgeries.

There are a number of ways valuation could be done, including through public opinion and media coverage – though these two examples are not conducive to the best policy. They often lead to the government failing to invest in long term solutions (i.e. an expensive, short term crackdown on drugs is preferred to longer-term recovery programmes). The government may feel the pressure to be seen to be doing something about a problem that has received media attention and public outcry and spending money on it immediately. For example, MRSA led to additional funding for hospitals, but it was not clear that this was the best way for the health service to spend additional funds.

It is precisely because governments spend public money that they need to be held to account. Transparency over valuation is required, so that taxpayers can see that social value for money is being achieved. Governments should be forced to defend and justify their priorities, and consider alternative ways to achieve outcomes.

Valuing outcomes can be a useful tool to align stakeholders, or encourage decision-makers in charge of different outcomes involved in a discussion about what really matters: the cost-effectiveness of outcomes. This can lead to more closely aligned departments, and closer cross-department working.

CHALLENGES OF VALUATION

Making this information public can lead to political problems, with issues being hijacked by special interest groups. Trade-offs can be difficult for the public to compute and it is not clear that full transparency would ultimately be beneficial.

The budgeting process currently blocks effective valuations, as the budget holder is focused on ensuring that they, rather than society get the most value for money. Who pays for and who saves from an intervention is an important question; significant savings can accrue, but outside of the main department or decision-maker funding the service, or outside of an agreed budget cycle – this can lead to poor or sub-optimal decisions. This governance problem can be better tackled by determining effective valuations across departments and incentivising managers to maximise ‘outcome value’ rather than their departmental outcome. Departments could compensate each other or contribute jointly to initiatives that achieve cross-departmental outcomes.

Ensuring that consistent and agreed values are used can be challenging. There will always be incentives to overstate value and understate costs in order to get a project approved. There is also a risk of double-counting or attributing outcomes appropriately to interventions. This can only be resolved by better use of evidence and clarity over the outcomes that form the basis of the business case. The process of valuing outcomes merely exposes the inconsistencies and biases that exist today.

WHY IS IT IMPORTANT TO BREAK SPENDING OUT INTO FISCAL, ECONOMIC AND SOCIAL VALUE?

The government needs to know the fiscal value in order to decide whether or not to invest in a programme, and what it is likely to cost to finance.

They also need to recognise the impact on the overall wealth of the nation, and the impact on GDP and individual members of the public as this is a key indicator of well-being. The government may need to make a value judgment over the citizens they target with an initiative. For example, differential payments in the Single Work Programme explicitly places a higher value on supporting those most disadvantaged into the labour market. Different values may be based on other characteristics: for example, valuing the outcomes of the victims of crime over the outcomes of the perpetrators.

Social value means recognising the non-financial sources of value, such as time saved and other quality of life indicators. These have often been recognised as important, helping an older person across the street, or asking sincerely about the health of a colleague confers no fiscal or economic value, but the action can change a person’s day. There is significant debate over how far social value can be ascribed a financial value; a large part of social value will remain unvalued and could be described as civic duty. Despite the

difficulties of describing and valuing social outcomes, however, value for money will only truly be maximised through outcome-based government that seeks to understanding the fiscal, economic *and* social value of their policies.

CHAPTER THREE

Productivity

3.1 Introduction: Systematically measure productivity

Once the Government has a clear definition of what it wants to deliver, it then needs to be able to judge accurately how to deliver it as cost-effectively as possible, and how much to deliver. This means understanding productivity: the relationship between outcomes and spending. Successful spending decisions rely upon relevant, accurate and timely information. Without knowing the true cost of a programme, and its effectiveness in achieving outcomes, option appraisal is always partially guesswork.

First we have to grasp the connection between costs (e.g. amount spent on salaries, buildings, training) and outputs (e.g. number of operations performed, students taught, arrests made). Second, we have to grasp the causal relation between outputs and outcomes. This represents the link, for example, between the number of operations performed and years of life gained, or the number of arrests made and the level of crime in the community. This second step necessitates rigorous research into causality and the different patterns of activity that affect outcomes. These two steps combined constitute the true measure of spending effectiveness that is needed to make the right decisions across government.

The lack of a clear understanding of productivity leads us to question the basis on which policy decisions are being made. Without systematic use of data and evidence, it seems that guesswork and the personal biases of policy makers play a much greater role than they should. We still have no method to objectively, reliably and systematically assess public policy.

CHAPTER OVERVIEW

- Costs remain unclear in many areas.
- Outputs and outcomes are measured inconsistently, and the link between the two is rarely understood.
- Government fails to appreciate the full value of outcomes.
- A clear understanding of productivity is often not developed to support decisions.

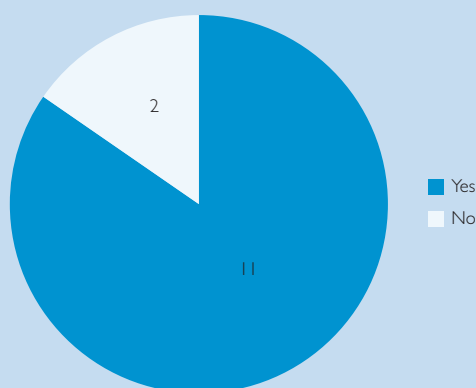
CHAPTER RECOMMENDATIONS

- Cost accounting and reporting need to be standardised, with a focus on the unit cost of an activity.
- Departments must systematically measure outputs and use empirical evidence to link outputs to outcomes.
- Departments need to work together to achieve outcomes.
- Government should develop and publish Productivity Assessments.

3.2 Understanding productivity today

Despite an increasing availability of data on cost, outputs and their relationship to outcomes, understanding of what each element of government spending is likely to achieve still appears to be patchy. Our ability to collect, interpret and analyse data across government has grown, but the costs associated with producing specific policy outcomes remain stubbornly opaque. Departments have been slow to take advantage of evidence or to commission new social science research to verify that outcomes are being achieved by planned outputs. Information on the cost-effectiveness of much public policy remains unknown.

Figure 5: Cost-effective approach not in place (number of reports)



Source: A review of 342 NAO reports, December 2006 – March 2010

- The NAO found that the NHS systematically underestimated the budget required to implement programmes.
- The PAC found that 36 out of 59 completed road building schemes cost 40 per cent more than originally estimated.¹
- The localised nature of initiatives means that departments are unable to aggregate cost data, or benchmark costs effectively.

¹ PAC, *Estimating and monitoring the costs of building roads in England*, London: PAC, 2007

- A civil servant in CLG informed us that after ten years, they ‘still don’t know what works’ to achieve community cohesion.
- Government spends £1.2 billion a year on measures aimed at tackling problem drug use, yet does not know what overall effect this spending is having.²

“The average rise above approved business case estimates for NHS schemes is 117 per cent, representing just over £4 billion.”

Based on a summary catalogue of all NAO reports on health since 2000

VALUE FOR MONEY (VFM)

Value for Money teams work within departments to improve efficiency and effectiveness. They provide management information internally to departments and the Treasury, and work with the department to improve processes and thereby improve value for money.

Their focus is based on materiality. This takes into account the size of budget and the performance and delivery impact of changes to a given process. They see themselves as the link between resource allocation and operational performance.

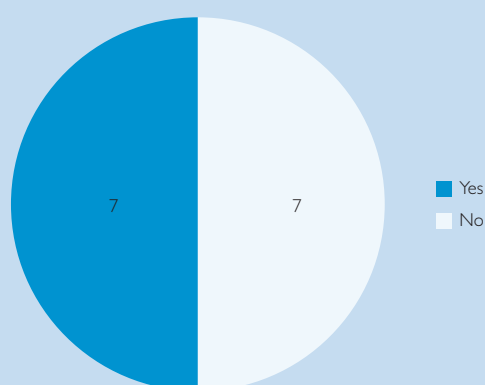
They do not report formally and their findings are not made public, often because they have to consider options that would be politically unpalatable.

3.3 Problems with the current system

3.3.1 INADEQUATE COST INFORMATION

Both NAO and PAC reports comment on a lack of clear cost information for individual programmes and activities. Interviews with civil servants revealed that this was because the relevant cost information was not demanded by commissioners. Costs were rarely split according to the activity or output that they were funding and the information that was available was not effectively shared across government.

Figure 6: Budget overruns: new projects (number of reports)



Source: A review of 342 NAO reports, December 2006 – March 2010

² PAC, *Tackling problem drug use*, London: PAC, 2010

Understanding the cost of an output – the cost to deliver a service to one individual – makes data much more comparable, and easier to link to outcomes. However, the focus appears to be on managing costs according to how the money was spent (the amount spent by a hospital on nurses), rather than what it was spent on (the cost of nurses' time required to deliver a particular hospital service).

Government departments responsible for commissioning services set the tone for those that manage programme spend and information. Most departments have reasonably well-established mechanisms of financial reporting; however their management accounting practices are not as well defined. Departmental reports show the financial accounts, but often fail to consolidate the management accounts. Where information is available for the cost of delivering specific programmes, the information is not generally shared with upper management for comparison at departmental or governmental level and is not made available to the wider public, limiting its use in supporting effective decisions.

For example, data was unavailable on the cost of UK prison intervention programmes. This meant that the only available cost data for studying effectiveness³ was taken from overseas, even though this is not directly comparable to the UK. A lack of detail about costs made it impossible to accurately adjust for variations in the duration of programmes, the cost of inputs, or the number of prisoners served within a programme.

We came across a number of projects and initiatives aimed at addressing this, notably C4EO in education and the Specifications and Benchmarking of Costs project within the National Offender Management Service (NOMS). However, such initiatives seem to be the exception rather than the rule.

The localised nature of initiatives and challenges in sharing information meant that departments were unable to aggregate cost data, or benchmark costs effectively. This is evidenced by, for example, the huge variability of costs across Primary Care Trusts in implementing the National Chlamydia Screening Programme.⁴

Most specific spending decisions are made around new programmes. There is a significantly better understanding of individual programme spending, especially when these are new or lie outside a department's core remit.

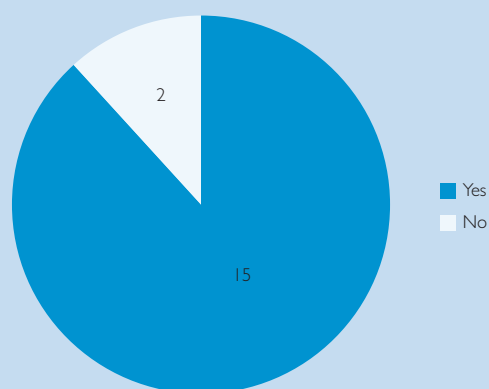
3.3.2 POOR UNDERSTANDING OF THE CAUSAL LINK BETWEEN OUTPUTS AND OUTCOMES

There has been a greater emphasis on measurement and monitoring of outcomes with the introduction of the PSA regime. We have already discussed the weaknesses of governments past and present in setting clear outcomes; this naturally has an impact on how readily (and how usefully) they can be measured. What is clear is that outcomes, once defined, should be measured and regularly monitored, which does not always seem to be the case. Management information is either not collected, or not shared effectively so that it can support effective decision-making.

3 <http://www.matrixknowledge.co.uk/wp-content/uploads/economic-case-for-and-against-prison.pdf>; <http://www.wsipp.wa.gov/pub.asp?docid=06-10-1201>

4 NAO, *Young people's sexual health: the National Chlamydia Screening Programme*, London: NAO, 2009

Figure 7: No causal evidence (number of reports)



Source: A review of 342 NAO reports, December 2006 – March 2010

We find that departmental capabilities and baselines against which indicators can be tracked are often not assessed. Poor measurement and monitoring means that there is no feedback loop for decision-makers. Questions such as: ‘Did the investment deliver what was expected? What was the outcome delivered per £1 spent?’ cannot be answered.

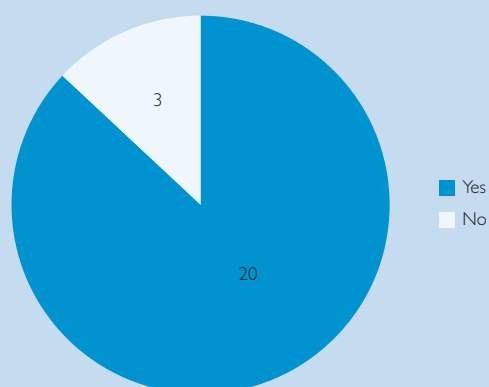
POOR MANAGEMENT INFORMATION SYSTEMS

‘It is unacceptable that 34 per cent of data systems still have weaknesses and 11 per cent remain unsatisfactory.’
(NAO, 2009)

Even where there is a will to provide more detailed information, this is not always possible due to system constraints. This partly drives the lack of visibility around costs, outputs and outcomes.

At a basic level, there is scope to improve departmental data systems and processes, the insufficiency of which has led to audit difficulties and inadequate disaggregation of costs. Issues arise both from data availability, as with voluntarily provided data, and data consolidation, where information is not shared between organisations within a department.

Figure 8: Poor data and MI systems (number of reports)



Source: A review of 342 NAO reports, December 2006 – March 2010

Finally, to understand productivity, the link between outputs and outcomes needs to be determined through the use of empirical evidence. The mantra of ‘evidence-based policy’ has permeated the civil service in recent years: nonetheless, one senior advisor told us that the government’s use of evidence remains ‘primitive’. The inability systematically and effectively to incorporate empirical research into policy that changes life outcomes is a failing of the current process.

3.3.3 GOVERNMENT FAILS TO APPRECIATE THE FULL VALUE OF OUTCOMES

The relationship between government spending and broader life outcomes is not well understood. One reason for this is that government is slow to account for the dynamic impact that changing life outcomes can have on the public purse. To give just one example: if we can improve the life outcome of a prolific

“We found ... a case where one family was receiving more than 20 separate interventions by different public services ... the various separate interventions were effectively maintaining the family in its current situation ... offering no prospect of helping the family to move out of that situation into one which would be more fulfilling for them – and less expensive to the public sector.”

Local authority Chief Executive

criminal offender, (and in doing so the life outcomes of his/her partner and children) so that instead of being a burden on the state, he/she becomes a productive member of society, we can direct spending toward better forms of investment, such as investing in education, improving the health service or cutting taxation.

The worst life outcomes are often concentrated in specific communities, and specific families within those communities. Local authorities report that the most anti-social families can in some cases cost over half a million pounds per year in public services, so changing the outcome for such families not only has an important social impact on the families themselves and their community, but can also produce significant savings for the state.

Unless we fully appreciate the dynamic impact of life outcomes on public sector costs, we will continue to focus our resources on ‘sticking plaster solutions’ that neither improve lives nor save money in the long term.

Departments need to become aware of the impact that their core activities have on outcomes across government to improve the effectiveness of public service delivery. Programmes that achieve outcomes spanning departments will continue to be under-funded.

Outcomes achieved in other departments are rarely considered

While the Green Book does discuss the question of how costs and benefits are distributed across society, it does not address the question of how such impacts are distributed across government. That is to say, it does not consider that the impacts resulting from the spending might have a feedback effect on government finances; nor does it consider the positive outcomes that may accrue to a different department other than the one sponsoring the spending.

3.3.4 INSUFFICIENT UNDERSTANDING OF PRODUCTIVITY TO INFORM DECISIONS

While the Green Book is a welcome tool for use by departments when evaluating spending decisions, we find that the usage of the Green Book is a key driver of the inability to appreciate the full value of outcomes. We have found that the Green Book is rarely used, or used inconsistently.

The nature of SROI methodology also necessarily introduces a number of biases, many of which are unwelcome. This is not to under-emphasise the value of the Green Book in providing a framework within which cost benefit analysis and return on investment calculations can be carried out. Many of the structural criticisms are in one sense unavoidable, and updates to the Green Book have improved it and maintained its relevance as data collection and analysis techniques have advanced.

However, there is still scope for further updates to improve its applicability, particularly to social spending on a department by department basis.

While departments are often remiss in their use of the Green Book, we have identified a number of shortcomings of the methodology itself. These include an under valuation of social outcomes; poor consideration of cross departmental outcomes and a lack of consistency in the valuation of outcomes.

Social outcomes are typically undervalued and valued inconsistently.

While the Green Book asks that social impacts be valued, there is no explicit discussion or guidance regarding measuring the effectiveness of spending on the government's highest priorities. To some extent, the choice of what to value in the Green Book methodology is determined by what has been valued previously – by the data that is available rather than by what we want to know. A further problem is that the valuation of outcomes is mostly done in a bespoke manner for each investment decision – so that different values might attach to similar outcomes in different analyses.

The Treasury places greater emphasis on the economic, and in particular the fiscal, impact of a programme than on social impacts. It is harder to predict and value outcomes in the social value category (such as environmental impact and changes in wellbeing) with the same consistency as financial outcomes; and improved social outcomes are not recognised as directly as financial savings within departments. In our work at the CSJ, we have witnessed the challenge of convincing policy makers and civil servants to recognise social value, and the interconnected nature of social breakdown, in their funding decisions. We believe that placing a financial value on social outcomes will *increase* the focus on many of them, as for the first time we will understand what they are worth. By focusing on social, as well as fiscal and economic value, we can continue the process of reversing social breakdown.

“After 10 years, we still don't know what works [to support community cohesion].”

Civil servant in DCLG

“Everyone talks about “evidence-based policy, but they don't understand the first thing about the quality of evidence.”

Senior civil servant

3.4 Recommendations

Government should allocate resources where they will deliver the most value: spending decisions must be made based on the productivity of that spending. Currently, government lacks the capability to deliver a reliable estimate of productivity. It needs to remedy this.

In the context of departmental budget cuts of 25 per cent over the course of this parliament, it is more important than ever to understand productivity. In the short term, departments should first identify and be open about spending that they believe fails to deliver desired social outcomes. These are the areas of spending that should be cut first and cut immediately.

3.4.1 COST ACCOUNTING

1. **Cost accounting and reporting need to be standardised, with a focus on the unit cost of an activity.** Transparency, measurement and information sharing all need to be improved across government. Government needs to understand the cost of delivering a unit of output, and understand the drivers of that cost.

Again, this is not a simple task, and there are a number of challenges that will need to be overcome along the way. However, elements of this approach should be relatively simple; effective managers in the public sector will already have an understanding of the cost of delivering outputs in their departments. This can be supported by effective independent oversight, as demonstrated by the Congressional Budget Office (CBO). Fundamentally, increasing the demand for effective and useful management information should greatly increase its availability. A greater focus on cost-effectiveness should help to address this.

The OBR is helping to improve our understanding of costs and fiscal forecasting at a macro-economic and departmental level. The external scrutiny provided by a small, independent team has helped to focus departments on improving their cost forecasting. In chapter five we recommend the introduction of a similar body, the Office for Spending Effectiveness (OSE) to provide a similar level of external scrutiny over major spending in departments across government.

BEST PRACTICE – CONGRESSIONAL BUDGET OFFICE (CBO)

Measuring costs

The CBO is an independent body that previews the costs of new pieces of legislation for Congress. Its mandate is to provide Congress with objective, non-partisan, and timely analyses to aid in economic and budgetary decisions on the wide array of programmes covered by the federal budget, and the information and estimates required for the Congressional budget process. It appears to have the required skills, access to information and mandate to have a deep understanding of cost. On the whole the CBO is well respected and its reports are considered thorough, accurate and non-partisan. As a result, there is significant weight attached to its statements and the CBO plays a prominent role in public debate.

Through its mission, the office aims to paint a picture of economic trends and the impact of fiscal policy on the economy. In addition it shows the individual effect of legislative amendments on the government budget, as well as the wider economy. In light of this, the CBO has impressive capabilities of economic and fiscal research and an unparalleled understanding of costs. A brief consideration of the reports that backed the CBO's conclusions on the health care bill,⁵ show an impressive capacity of breaking down and analysing costs. The cost of all individual components of the bill is calculated, from large scale reforms (e.g. extension of Medicaid) to small, local, targeted initiatives. This capability suggests wide access to good informational channels, high-quality output from internal staff and a thoroughly quantitative mindset and process. To the best of our knowledge, no equivalent mechanism of evaluating projected costs of governmental initiative exists in the UK.

The CBO discusses the outcomes of proposed legislation, both in relation to doing nothing ("acting under current law"), and to alternative courses of action. For instance, in the context of healthcare, it has found that 32 million Americans, previously uninsured, will have access to healthcare, as a result of the new bill. It also calculated the different fiscal effects of proposed amendments to the bill. The office lacks the mandate and capability to provide cost-benefit analysis of proposed legislation, limiting its scope to the calculation of costs and ensuing fiscal and economic implications.

3.4.2 USE OF EMPIRICAL EVIDENCE

2. **Departments must systematically measure outputs and use empirical evidence to link outputs to outcomes.** Departments must understand the productivity of core departmental activity – the majority of departmental spend – in achieving outcomes. This should also be conducted for new programmes, and to review ongoing spend. It will highlight gaps in departments' data collection and analysis capabilities.

The more challenging elements will be to understand the effectiveness of different outputs in delivering outcomes, and to change the culture of government to one that works together and manages on the basis of effectiveness, rather than efficiency.

The WSIPP and The Dartington Social Research Unit demonstrate that understanding effectiveness is possible by using meta-analysis of research and increased use of randomised controlled trials (RCTs). NICE carry out a similar function using clinical trials to assess the effectiveness of medical interventions. We believe that government should direct a portion of its resources toward funding this type of robust empirical research to help it better understand effectiveness in key areas of expenditure.

The Government currently spends considerable amounts on the monitoring and measurement of activity. However, this funding would be better directed toward understanding effectiveness and away from monitoring output targets that, without a robust understanding of how they link to outcomes have become close to meaningless. To do so, it is necessary to have clarity around the desired outcomes and their indicators (see recommendations in chapter one).

5 <http://www.cbo.gov/ftpdocs/113xx/doc11355/hr4872.pdf>,

BEST PRACTICE – NICE

Measuring Effectiveness

Establishing causation in the case of clinical practices is more straightforward than doing so in issues of public health. The clinical environment is more controlled than the habitual environment where the decisions that affect public health take place. Also, in most cases, the results of clinical practice manifest much faster, which makes the link between action and result a lot more discernible.

NICE also has an extremely robust methodology for assessing the standard of the research studies it uses as evidence for its reports and recommendations. Its sources include: meta-analyses, systematic reviews of RCTs (including cluster RCTs), systematic reviews of, or individual, non-randomised controlled trials, case-control studies, cohort studies, controlled before-and-after (CBA) studies, interrupted time series (ITS) studies, correlation studies, non-analytical studies (for example, case reports, case series), expert opinion, and formal consensus. Each study is rated (++ , + , -) for methodological rigour.

NICE invests thoroughly in the review of current academic literature on the effectiveness of the practices it proposes. When the necessary evidence is not there, NICE collaborates with leading research institutions to work on pertinent issues. In addition, it publishes recommendations on policy-oriented needs for research.

Costs are measured from the perspective of the NHS and personal social services (PSS) including the long-term care costs for patients. They are measured robustly for clinical practice and health technologies, and include costs to the NHS, the economy and the patient. When it comes to public health interventions, costs tend to be well defined given the uncertainty involved, though in many cases, these reports take a “this is how to think about costs”, rather than “these will be the costs” approach. Often, because the costs of implementation at a local level are variable and data is not available, NICE is unable to provide a full analysis.

BEST PRACTICE – WSIPP

Measuring Effectiveness

The WSIPP lead the field in evidence-based policy making in a number of social policy areas. At the heart of their approach is a robust understanding of productivity – i.e. what impact on outcomes does a given programme have. The first part of assessing causation for the WSIPP is to define clearly the specific set of research questions. This is a crucial part of the process that distinguishes this work from typical academic approach. The focus here is on identifying the questions that are relevant for answering the policy question.

Example: Class Size Research Questions⁶

- Does reducing the number of students in a classroom improve student academic performance?
- If so, then by how much?
- Are class size reductions more effective in primary, secondary or high school?
- Do students from lower income families benefit more by class size reductions than students from higher income families?

6

Aos S, Miller M, & Mayfield J, *Benefits and Costs of K–12 Educational Policies: Evidence-Based Effects of Class Size Reductions and Full- Day Kindergarten*, Olympia: Washington State Institute for Public Policy, 2007

The WSIPP then seek to determine the effectiveness of a programme by comparing the outcomes for participants with similar members of the population who did not participate in the programme. ‘In an ideal research setting, offenders would be randomly assigned to either a study or a comparison group and any differences in recidivism rates could be readily observed.’⁷ Given that RCTs are rarely available in social settings, the WSIPP use a mixture of academic research and statistical techniques to conduct their research on causation.

“Almost all business and public policy decisions involve different degrees of risk and uncertainty in knowing whether desired outcomes can be secured with a given strategy.”⁸

When considering whether a typical real-world investment improves outcomes, the WSIPP systematically assess the findings of all available research studies that they judge to be methodologically sound. The goal of the review is to identify approaches that have been shown to work, and those that have not, so as to find out if a programme on average works or not. One reason to seek all available research is that peer-reviewed work tends to be biased towards reporting successful programmes.

“One always hopes for above-average performance – a so called ‘Lake Wobegon’ effect – but for . . . taxpayer investments . . . we think it is more prudent to base expectations on the average evidence-based result.”⁹

The full set of reviews is then screened for methodological rigour and relevance. The study’s research design must allow it to isolate and identify the causal effects of the programme – preferably with a control group, and a large enough sample size. Studies are excluded if it is not clear how participants were chosen, particularly if they did not control at the outset for other factors likely to affect outcomes, such as demographics. Individual authors of the studies frequently need to be contacted to obtain additional information.

The WSIPP pay close attention to each study’s methodological quality, as many of those in touch with the participants can exert influence on how the programme is carried out. Hence, the closer an evaluation is to a double-blind RCT the more weight it is given.

For each evaluation that passes the filter, they compute an “effect size” – a statistical summary measure indicating the degree to which an evaluated policy or programme changes an outcome.

3.4.3 BROADER PERSPECTIVE

3. **Departments need to work together to achieve outcomes.** Departments should take a broad view of productivity and be able to include outcomes delivered outside of their department in their productivity case if the knock-on effects on broader outcomes are well understood. This will

7 Drake E.K, Barnoski R, and Aos S, *Increased Earned Release From Prison: Impacts of a 2003 Law on Recidivism and Crime Costs, Revised*, Olympia: Washington State Institute for Public Policy, 2009

8 Aos S, Miller M, & Mayfield J, *Benefits and Costs of K–12 Educational Policies: Evidence-Based Effects of Class Size Reductions and Full- Day Kindergarten*, Olympia: Washington State Institute for Public Policy, 2007

9 Ibid

require departments to work together, share information effectively and value outcomes in a way that is consistent across government.

This approach also requires that consistent outcomes are used across departments, as addressed in chapter 3, and management systems aggregate and share data effectively not only on cost but also on outputs.

3.4.4 PRODUCTIVITY ASSESSMENTS

4. Departments need to develop and publish Productivity Assessments.

All new funding requests need to be made on the basis of a clear ‘productivity assessment’. This should link activity cost to outputs, outputs to outcomes and outcomes to their overall value – a stronger and more empirically driven version of the current Impact Assessment. The productivity case will be used to set targets based on the value of outcomes delivered. They will be evaluated based on the strength of evidence in achieving outcomes, their value and the timescales against which they will be achieved. The thinking and assumptions behind the ‘productivity case’ should be published as part of the spending and decision-making process.

As we have argued in chapter two, valuing outcomes according to their fiscal, economic and social impact will need to become standard practice to fully understand productivity. This will allow the consistent trade-off of outcomes across departments, and acknowledge cross-departmental outcomes where there is evidence that departments are having a wider positive impact. It also allows decision-makers to discount outcomes using a discount rate for outcomes that are delivered far into the future.

Scrutiny over the evidence used also needs to be improved. This can be addressed through independently scrutinising the quality of evidence and methodology used (see the Office of Spending Effectiveness – chapter six). Greater transparency will improve accountability, as will making evaluation a key element of business plans with real consequences for success as well as for the improper use of evidence or poor execution.

3.5 Conclusion

Productivity in the context of social value refers to the link between costs, outputs, outcomes and ultimately to social value. A good understanding of productivity would take into account the evidence about what works and its cost-effectiveness, thereby enabling informed decisions.

Unfortunately, we find that public spending decisions are too often not informed by a robust understanding of what that expenditure is likely to achieve. Too often, basic information on costs that ought to be readily available is not available, not shared, or not usefully reported. The government has only a limited understanding of what works to deliver outcomes, and their effectiveness.

Without a clear understanding of productivity, decision-making will always partly be based on guesswork, and cost-effectiveness will not play as great a role as it should. The recommendations in this section provide a path toward understanding productivity. Demanding cost-information in a useful, comparable format should become standard practice, departmental business plans indicate a move in the right direction. Gaps in evidence need to be identified first, and then tackled through systematically guiding empirical research and gathering evidence in these areas. This evidence will identify interventions that deliver outcomes across departmental silos, such interventions will be recognised in a new productivity assessment, allowing for cross departmental funding and delivery, scrutinised independently.

As well as understanding what works, productivity should help us to understand interventions that are less effective at delivering outcomes. This will support the re-allocation of resources toward effective interventions, helping the government to deliver more for less.

CHAPTER FOUR

Decision-Making

4.1 Introduction: More rigour in decision-making

The principles of effective budgeting and decision-making need to be enshrined in a robust and effective governance process. Good spending decisions need to be rewarded so that decision-making culture and institutions remain focused on achieving the maximum social value from public money. A culture that considers the size of a departmental budget rather than its effectiveness as the key measure of success, combined with limited consequences for failure, serves to weaken the ability of Government to make effective, long-term and meaningful spending decisions.

It is clear that electoral politics will always have a major influence over spending decisions, and personal incentives will have a role to play in decision-making; elected members should rightly have the final say. However, the aim of this proposed approach is to inform policy and to better hold decision-makers and elected officials to account for their policy choices.

We find that due to political and personal factors, and weak enforcement over governance, decision-makers often have little incentive to worry about value for money.

CHAPTER OVERVIEW

- The Green Book process is underused, and has a number of shortcomings.
- Too often politics takes a priority over cost-effectiveness in resource allocation.
- There are few personal incentives to make cost-effective decisions.

CHAPTER RECOMMENDATIONS

- Strengthen the Green Book process (and its deployment).
- Use the new business case to hold public servants to account.
- Incentivise the Civil Service to focus on cost-effectiveness.

4.2 Current decision-making processes

Budgets are allocated through a variety of mechanisms, but the process begins with central government allocating budgets to departments and local authorities.

Departmental budgets are agreed roughly every three years through the Spending Reviews. Local authority funding is primarily a mix between the Regional Support Grant (RSG) and local taxation. They in turn decide which services and programmes to fund, and commission public, private or voluntary sector providers to deliver them.

This section summarises a few of the key processes used to make spending decisions across each of these levels.

4.2.1 THE SPENDING REVIEW PROCESS

HISTORY OF THE COMPREHENSIVE SPENDING REVIEW

The first Comprehensive Spending Review was launched in 1998 in response to the Labour Government's criticisms of the 1992 spending framework. Reforms were introduced to lengthen the time horizon of public spending planning and to increase the focus on departmental controlled spending through the split of budgets into Departmental Expenditure Limits (DEL) and Annually Managed Expenditure (AME).

Simply speaking, DEL encompasses spending which the department can directly control, while AME describes spending that passes through a department but is linked to variables over which the department has little control, such as the number of benefit claimants, patients, children and so on.

Additional reforms were expected to end the 'use it or lose it' mentality by allowing departments that saved to carry forward savings into the next financial year through 'EYF' or End Year Flexibility. Though these reforms were welcomed, it is clear to many, including the Institute for Fiscal Studies; that 'the new framework does not represent a radical change'.¹

The spending review process usually starts around 18 months before the actual review is published. The Treasury spending teams contact individual departments asking for their budget proposals. Each directorate in a department puts together zero-based budgets, based on current objectives, targets and ministerial priorities; this is consolidated by the finance team and is sent to the Treasury spending team. There follows a period of review between the Treasury spending team, the department finance team, and directorates. This constitutes the formal process, but in reality the process tends to be much 'looser' and more informal, with the Treasury spending team involved in review and negotiation meetings from a much earlier stage.

¹ IFS, Briefing Note BN43: *A Survey of Public Spending in the UK*, ESRC 2009; accessed via: <http://www.ifs.org.uk/bns/bn43.pdf>

It is best described as a negotiation in which the outcome is as dependent on the political clout of each department as on the quality of their budget submission. In practice, certain spending suggestions are out of bounds for discussion because of political commitments.² The ultimate allocation is inherently political. The Treasury spending teams typically have a fairly clear idea of the total budget they intend to allocate to a given department, and this knowledge is used from an early stage to temper department and directorate budget submissions and bring them within the departmental spending limit. The final allocation is guided by the Treasury, and tends to be closely related to historical budgets.

The final budget submission is shared with ministers and department boards before it goes to the Chief Secretary of the Treasury for approval. It is fundamentally a top-down process where budgets are championed by departments but the outcome remains inherently political.

ZERO-BASED BUDGETING

Zero-based budgets require justification for every penny spent. Zero-based budgeting should mean that every department function is reviewed comprehensively and spending must be justified individually by each division manager starting from a zero-base – i.e. assuming that no money will be spent. In theory, zero-based budgeting is indifferent to whether the total budget is increasing or decreasing.

The current Government has completed its first Spending Review. The budget allocations in the recent Spending Review indicate the changed priorities of a new government. A number of structural reforms that change the way reformed institutions make decisions were also announced, intended to improve the productivity of spending. For example, the changes planned by the Department of Health (DoH) to NICE³ as part of the move toward ‘value based pricing’ shifts the responsibility for making cost-effective decisions from NICE to GPs.

4.2.2 DECISION-MAKING IN DEPARTMENTS AND LOCAL AUTHORITIES

Departmental decision-making is informed by the Business Case and Impact Assessment process. These aim to ensure that policy and expenditure decisions are informed by an analysis of effectiveness. The analysis is supported by the Treasury Green Book, which aims to ‘set out the core principles on which all public sector economic assessment is based’.⁴

² For example: cuts to the Health Budget and Foreign Aid budget were ruled out before the 2010 general election

³ Department of Health, *Equity and excellence: Liberating the NHS*, London: Department of Health, 2010

⁴ HM Treasury, *Green Book Guidance: Home Page*, consulted October 2010, p.1, accessed via: http://www.hm-treasury.gov.uk/data_greenbook_guidance.htm

After expenditure allocations and priorities are agreed, ongoing departmental expenditure is monitored from within by each individual department. The execution of spending decisions is reviewed by the NAO, and its reports are scrutinised by the PAC. This report focuses on institutions at the highest level of government because ultimately this sets the tone for other public spending institutions.

Local authorities are responsible for the delivery of a range of central (as well as local) government initiatives. The public sector funds many voluntary and private sector organisations to support the delivery of public services, and directs their activity through the commissioning and procurement process.

In theory, councillors decide on how money is spent within the local area. However, each local authority directorate has a base level of demand and often struggles to meet central government objectives and targets from the funds available, and much of their delivery responsibility is statutory. This leaves very little room for decision-making at the local level.

4.2.3 THE BUSINESS CASE AND IMPACT ASSESSMENT PROCESS AND THE GREEN BOOK

Any project or programme of expenditure above a department's spending limit must be reviewed by the Treasury business case team. Larger departments will have a higher threshold due to their higher internal capability with which to manage that expenditure. Similarly, any policy likely to have a material impact on outcomes has to undergo an Impact Assessment, to consider the likely impacts of that policy.

The Treasury requires that every allocation proposal be conducted in accordance with the Green Book, and the accompanying 'five case' methodology.

THE GREEN BOOK

The Green Book aims to set out the core principles on which all public sector economic assessment is based. It is the generic manual for conducting Value for Money analysis in government today, and is intended to be used by all departments for activities. It is based on the principles of the SROI-Network, and is regularly updated to ensure that its guidance is kept up to date.

The Green Book suggests that five or six options should be put in front of ministers, with a number of them being of a standard to warrant further investigation.

The Green Book lays out a recommended approach for option appraisal. This focuses largely on how to value the costs and benefits of options, and adjust these for risk and uncertainty, distributional impacts and tax impacts, and how to carry out net-present value calculations.

4.2.4 COMMISSIONING AND PROCUREMENT

Many public services are provided by the private or the community and voluntary sector. Both private and social entrepreneurs are a powerful source of innovation in the delivery of public services; we would be poorer without them.

An estimated £80bn is spent on outsourcing contracts to the Private Sector, while the community and voluntary sector is also a major beneficiary of public funds to help deliver social outcomes. In 2007-08, the voluntary sector received £12.8bn – 36 per cent of total voluntary sector income from government.⁵ This funding often falls under the same procurement processes as the private sector; 75 per cent of the funding distributed in 2007-08 was in the form of contracts. As a result, commissioning and procurement applies equally to the community and voluntary sector.

The involvement of both the private and the voluntary sector could be improved by adopting the approach outlined in this paper. A common framework for assessing policy should enable public, private and voluntary sector providers to compete on a level playing field, on the basis of delivering outcomes cost-effectively.

Currently, public services delivered by the private and voluntary sector are secured through a procurement process designed to ensure that the services meet a minimum required specification and provide the best possible value for money. Procurement teams sit within each government department and local authority specifically to manage commissioning and monitor third party delivery on an ongoing basis.

Some departments and local authorities are moving towards a payment by outcomes model. Under this model, the provider is paid for achieving a clearly defined outcome. For example, a ‘sustained employment’ outcome was defined as 26 weeks of continuous employment by the Department for Work and Pensions under the commissioning for Flexible New Deal 2.

4.3 Weaknesses in the current system

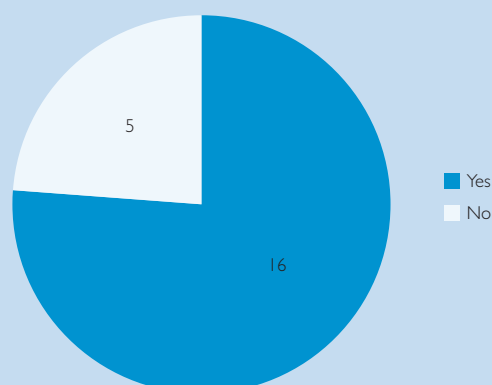
4.3.1 THE GREEN BOOK PROCESS IS UNDERUSED

The Treasury requires that every significant budget request is conducted through a business case process, guided by the Green Book methodology. The business case should inform the political decision-making process. However, our conversations with officials and analysis of NAO reports gave us the impression that the Green Book is used rarely and inconsistently.

Evaluation using the Green Book methodology is limited to spending on new programmes. Existing programmes are rarely reassessed.

⁵ <http://www.ons.gov.uk/about-statistics/methodology-and-quality/measuring-outcomes-for-public-service-users/mopsu-reports-and-updates/mopsu-final-report.pdf>

Figure 9: Cost-benefit analysis incomplete (number of reports)



Source: A review of 342 NAO reports, December 2006 – March 2010

The Book provides little clear guidance on how to value social impacts or consider cross-departmental outcomes, compounding the problems of prioritising resources effectively. Where the Green Book approach is applied, there seems to be a lack of consistency in how it is interpreted.

In practice, Green Book-style Impact Assessments are often carried out too late in the day to provide ex-ante justifications for policies already decided upon. It was described to us by one civil servant as ‘policy-led evidence making’, with the methodology often used to support ministerial initiatives rather than appraise policy options.

Civil servants complain that political considerations are given disproportionate weight, meaning that only a very narrow range of options are considered during the policy appraisal process. Almost half of all option appraisals reviewed only one option (or one option and the ‘do nothing’ option). This is borne out by anecdotal evidence from a number of interviewees who described that common practice is to present the ‘do nothing’ option, the favoured option, and one more outlandish option that would never be accepted. This was described to us as the ‘Goldilocks problem’ (with one option being too hot, another cold and the third ‘just right’).

The National Audit Office recently reviewed 50 randomly selected impact assessments from 2008-09. It found that 18 per cent “would not provide sufficient evidence to convince the reader that the right conclusion has been reached”; and a further 54 per cent were inadequate in either the range of options considered, the economic valuation of costs and benefits, or the quality of evidence used to back assertions.⁶

“In practice, departments vary in their execution of the methodology. The 2005 Parliamentary report on business cases said they were poor, the recent NAO report on Impact Assessments said they were poor and though all departments do business cases, not all do them well.”

Senior civil servant

6 National Audit Office, *Assessing the Impact of Proposed New Policies*, London: NAO, 2010, p. 12.

STRUCTURAL BIASES IN THE GREEN BOOK

Alongside the shortcomings within the Green Book methodology, the current approaches taken to evaluating and reviewing public spending also lead to a number of structural biases and unintended consequences.

Structural biases refer to aspects of the approach that look right when viewed in isolation, but when one thinks through the wider impact they can lead to unintended consequences. There is a potential to skew spending decisions in an inefficient manner. In particular the choice of outcomes, the processes in place and the governance structure means that spending decisions tend to be ‘nudged’ in a certain direction, often away from ensuring social value for money. It is important to acknowledge that such structural biases can never be completely removed, even in a perfect world. Decision-makers need to recognise these biases and guard against them to the best of their ability.

The Net Present Value (NPV) methodology

The NPV approach has the benefit of showing which programme has the highest absolute social return. However, it does not show which programme has the greatest relative return – i.e. where do we get the biggest ‘bang for our buck’. Consider the following simplified example of three ways of achieving the same objectives:

	Option A	Option B	Option C
PV of Costs	£100m	£50m	£40m
PV of Benefits	£200m	£120m	£100m
NPV	£100m	£70m	£60m
ROI (NPV / Costs)	1.0	1.4	1.5

Now assume that the relevant department has £100 million to spend on this objective. If all it considered was the NPV of programmes, it would fund option A as it has the highest NPV. However, when we consider the return for each option, we see that it is actually best to invest in Option C first followed by Option B. Doing so gives us the highest rate of return, and in combination the highest NPV as well (£130 million as opposed to £100 million). This is a simplified example that understates the complexities involved in actually using either method – but the important point is that in a world of constrained capital, it is essential to use a return on investment calculation as opposed to stopping at the NPV stage. In more complex situations, it is essential that evaluations also account for net effects.

The choice of the Discount Rate

A third structural bias derives from the number of adjustments which need to be done to each cost-benefit analysis. Apart from the Discount Rate, which is recommended to be 3.5 per cent, these adjustments are made according to the professional discretion of the economist in charge of the evaluation. (This is particularly true for accounting for optimism biases). This makes it harder to compare different Impact Assessments.

4.3.2 EVIDENCE IS OVERSHADOWED BY POLITICAL PRIORITIES

Political rhetoric focuses on outputs over outcomes and gives little serious consideration to the cost-effectiveness of expenditure. It is easier for a minister to announce a new initiative in response to perceived electoral priorities, than to consider how effectively that initiative achieves the outcome desired. Civil servants accept that they have a responsibility to inform ministers objectively, but report that the pressure from ministers can be often intensely political. The political rhetoric needs to shift from spending on outputs to effective spending that achieves social outcomes.

Ministerial announcements can allocate a sum of money toward addressing concerns raised by the media, often with little consideration of the desired outcomes, or the ability of the expenditure to impact upon them. ‘£50 million initiatives’ were mentioned in chapter two, where money was spent to address political concerns ahead of any real consideration if this was the best way of achieving the desired outcomes. Concerns over the spread of the ‘superbug’ MRSA led to additional funding for hospitals, but it was not clear that this was the best way for the health service to spend additional funds.

The civil servants involved in SureStart failed to accept the widely acknowledged problems of ‘middle-class capture’ of resources, or evidence that budgets intended for SureStart were often re-allocated by local authorities to fund childcare in order to cope with targets and budget constraints, despite concerns being well-evidenced.⁷

4.3.3 INCENTIVES ARE NOT ALIGNED TO VALUE FOR MONEY

Government is hugely complex and the departments act as silos. Departments have little internal incentive to manage value for money astutely. Outcomes which straddle departments are particularly difficult. This complexity increases the need for discipline in managing the value for money of public spending and independence for reviewing the results.

The lack of incentives can stem from the poor quality of information and measurement of cost-effectiveness discussed in Chapter 4; for example, a failure to consider cross-departmental outcomes. It can also be caused by the pressure to meet departmental targets, often ignoring the impact that their spending has on outcomes achieved outside of their department.

Decision-makers tend toward achieving short-term targets while still in office over longer term measures, and there is a focus on protecting budgets. There is a cultural inability to accept failure, or reward the taking of measured risks, and an honest, objective evaluation of effectiveness remains elusive.

⁷ PAC, *Sure Start Children's Centres, thirty-eighth Report of Session 2006-07*, London: The Stationery Office, 2007.

COST-EFFECTIVENESS AND THE IMPLEMENTATION OF THE SPENDING REVIEW

Cuts to effective programmes may save money in the short term, but they can lead to poorer outcomes for individuals and society in the medium and long run. These outcomes can ultimately have a substantial cost to the public purse.

Fairbridge provide long-term programmes for young people with whom other organisations have found it challenging to engage. Support is tailored to the individual and involves a high level of input from staff. 50 per cent of Fairbridge's income comes from statutory sources. If this money was cut, Fairbridge argue that there would be a net loss to public finances as well as to their clients.

A number of voluntary sector organisations have made a similar case and are concerned over how the cuts from the Spending Review will be implemented. They argue that they provide substantial social and fiscal value through their activity over the long term. This problem often stems from poorly aligned incentives across departments, and challenges in agreeing funding for organisations that achieve a number of outcomes across departments. For example, a charity working with disengaged children in schools tried to argue for additional funding because of the benefit their work had on long term crime and economic dependency outcomes which were well evidenced. However, their funding came from the education budget whose main reason for funding their work was to remove a disruptive pupil from the classroom for a sustained period, rather than the impact they were having in supporting the pupil to improve their behaviour.

Fairbridge Case Study: Jenna

It costs £2913.70 on average to put a young person through the Fairbridge programme, compared to the £97,000 expense to the public that someone who is not in education, employment or training (NEET) accumulates over their lifetime. Fairbridge argue that any cuts in statutory sources will lead to future costs rather than savings to the public. This ignores the social cost of wasted potential for participants like Jenna, and additional savings made by avoiding crime or addiction like many disengaged and disadvantaged young people, who do not get support from Fairbridge.⁸

When Jenna first heard about Fairbridge, she was on a mental health ward where she was staying as an out-patient because she had nowhere else to go. This was a cost to the taxpayer and Jenna lacked the resources to change the situation; she told us: 'I didn't go out, I didn't do anything'.

At Fairbridge, Jenna took part in residential courses and projects, including producing a film for the IMAX Film Awards. Her confidence grew and she started to, in her words, 'come out of myself', even talking at a Christmas carol concert in front of three hundred people. Jenna is now renting her own house, working towards starting a course in health and social care and beginning to volunteer at Fairbridge to help other young people.

Around 85 per cent of Fairbridge participants, like Jenna, achieve a positive outcome (moving into work, volunteering or training, returning to education or achieving an accreditation or qualification). More than 90 per cent of these young people were sustaining these positive outcomes nine months after their initial engagement with Fairbridge, with the promise of their lives being positively impacted for the long term.

The way in which we assess ministerial and management success within the public sector has to be on the basis of delivering outcomes cost-effectively. There are few incentives for success or consequences for failure on this measure of cost-effectiveness, leaving a constant upward pressure on government spending.

8 *Fairbridge Value for Money*, September 2010

THE LENGTH OF THE BUDGETARY CYCLE

Short budgetary cycles lead to a focus on achieving short-term outcomes. In the past, they have served to increase spending as the default position for departments was to justify their current spending and ask for additional funds.

The CSR process was deliberately extended to a three year cycle to reduce the bias toward short-term outcomes. While this is an improvement, the length of the budgetary cycle will have an impact on departmental planning, particularly as targets are usually set on the same timescales.

The PSA structure supports outcomes which are achievable in three years, at the expense of outcomes which take longer to achieve and measure. This will necessarily mean that short-term spending programmes, which deliver their main results within three years, will be privileged over programmes which achieve outcomes over longer periods – even where these are more effective. The merits of programmes such as early intervention are lost in a world of short-term targets. The Government's 20 year child poverty strategy is a notable exception. This commitment has led to attempts to achieve real policy change and do government business differently.

It has been argued that short budgetary cycles had a ratchet effect on public spending under the previous Government. A number of civil servants described the CSR process as one of protecting and growing departmental budgets. Spending any remaining budget in the last three months was common practice before a renegotiation, negotiations were about justifying expenditure rather than a holistic re-appraisal of spending.

This leads to a bias toward the justification of existing programmes, at the expense of new ones. Anything else could be perceived as an admission of failure and would likely result in a reduced budget under the following cycle. This leads to less funding to allocate toward new, better evidenced and more effective spending programmes.

The explanations of these effects often centre on the personal incentives of public servants. Ministers and public servants at all levels tend to be eager to build their empire, justify the success of their past decisions or have a duty to protect the jobs under them.

GP BASED COMMISSIONING

The changes planned by the Department of Health (DoH) (to NICE⁹) as part of the move toward 'value based pricing' shifts the responsibility for making cost-effective decisions from NICE to GPs. NICE will continue to play an important advisory role in providing authoritative advice to clinicians.

It is thought that GPs, being closer to the needs of patients, will make better decisions leading to a more cost-effective Health Service. The concern from some GPs is that this risks weakening governance over cost-effective decision-making in the NHS. De-centralised decisions could lead to inconsistent evaluations of cost-effectiveness because of an inconsistent understanding of objectives, data quality and analytical capability. By reducing the role of NICE guidance in the decision-making process, the DoH reduces a layer of independence and protection for GPs when defending cost-effective decisions to their patients.

9 Department of Health, *Equity and excellence: Liberating the NHS*, London: Department of Health, 2010

4.4 Recommendations

This chapter forms its recommendations by addressing the criticisms raised within it. The description of how existing tools and processes such as the Green Book, the business case and impact assessments are used, needs to be addressed and it appears that departments currently lack incentives to measure cost-effectiveness and allocate resources accordingly.

We came across a number of examples attempting to address this problem. The Total Place initiative helps local authorities to identify efficiencies by understanding

“At the operational level, delivery teams can be even less concerned about value for money: the view that ‘it is the commissioner that spends the money’ is common, with less recognition that their decisions have a direct impact on how well that money is spent.”

Senior civil servant

the resources spent by different budget holders on tackling a particular problem. In the NHS we saw how a focus on outcomes and cost helped to bring alignment between the finance function, hospital managers and doctors and nurses to make evidence based decisions to improve of outcomes over the long term. In this chapter we give an example used by one local authority working with The Dartington Social Research Unit to improve outcomes for children.

Elected officials should rightly have the final say over how to allocate public funds (and be held to account over their decisions) – but at the same time, they should be able to justify their decisions based upon independent, objective analysis of their effectiveness.

There are three areas where governance of such decisions could be improved.

1. **Strengthen the Green Book process (and its deployment).** Departments must be responsible for the consequences of allocating their own budgets, funding and commissioning public services to deliver outcomes. They need to conduct their own analysis of the cost-effectiveness of the activities that they fund, so that they can recognise the value of their impact on future core and cross departmental outcomes. Hence, the guidance in the Green Book must be developed to reflect the recommendations in this report and tailored to suit the needs of each department. This will help in securing departmental buy-in and enable a consistent, analytical, evidence-led approach to spending to be rigorously followed as part of the decision-making process, rather than after the fact.

BEST PRACTICE: WSIPP

Decision Making

WSIPP conduct both scenario analysis and sensitivity analysis to understand how robust their recommendations are under a different set of assumptions. WSIPP provide a range of returns on investment, since there are several factors that can be estimated only with uncertainty. They use a Monte Carlo approach for the simulation (useful for evaluating phenomena with significant uncertainty, by relying on repeated random sampling to validate results). Typically they will run the simulation for 5,000 cases, from a set of predetermined probability distributions for the factors.

Example: Educational uncertainty factors

In their study of educational outcomes WSIPP identified a set of factors that they varied for scenario analysis.

1. The estimate of the initial gain in test score effect size;
2. An annual rate of decay in this effect size to the end of high school;
3. An average annual real rate of growth in labour market earnings;
4. An estimate of the effect of a gain in test scores on lifetime earnings in the labour market;
5. Alternative social rates of return to account for such non-labour market factors as reduced crime, reduced health care costs, increased civic participation, and “knowledge spillovers” that stimulate general economic growth;
6. Alternative real discount rates.

In addition to reviewing different programmes, WSIPP also predict the likely impact on Washington State of multiple implementation options. This allows them to set observable benchmarks against which implemented programmes can be measured. The implementation options are:

‘Current’ – Continue with the existing programmes, funded at current levels

‘Moderate’ – Expand evidence based programmes to serve 20 per cent of the remaining eligible population

‘Aggressive’ – Redistribute funds to evidence based programmes to 40 per cent of the remaining population

This, along with a detailed sensitivity analysis, gives policy makers a range of options on which to base an informed policy decision.

2. **Use the new business case to hold public servants to account.** Elected officials and other public servants are responsible for policy and spending decisions. They need to be rewarded for good decisions and held to account when their decisions fail to improve outcomes. This does not give primacy to the business case process, rather it ensures that evidence is used to inform policy decisions. The business case should detail how evidence based programmes are to be implemented, and used to encourage decision-makers to take responsibility when they diverge from the evidence.
3. **Incentivise the civil service to focus on cost-effectiveness.** The Civil Service should own its analysis and set its own targets based on what it believes is achievable and be rewarded for meeting or exceeding these expectations. This should also ensure that financial and performance rewards are tightly linked to success in delivering the departmental business plans and achieving planned cross-departmental objectives.

A common framework for assessing policy should enable public, private and voluntary sector providers to compete on the basis of ability: that is, whoever can deliver outcomes cost-effectively. In some areas, we will find that non-government delivery is more efficient, in others it may not be. More importantly, this change will increase the amount of innovation around delivery of outcomes. Over time, this should dramatically increase the efficiency of how government delivers for the nation.

BEST PRACTICE: THE DARTINGTON SOCIAL RESEARCH UNIT AND BIRMINGHAM LOCAL AUTHORITY

Improving and aligning the incentives of decision-makers

Birmingham local authority and their partner agencies determined the key desired outcomes for children. All agencies worked together for nine days and were asked “What outcomes do you want for Birmingham children?”. The Dartington Social Research Unit helped Birmingham invest £40 million (of their £1.3 billion budget) on preventative, early outcome initiatives. They were able to attribute the outcomes to the initiatives through evaluation and RCTs.

The argument is that local authorities that make the right decisions should be able to retain the value of those decisions. Currently, benefit realisation is either non-existent as savings are retained in central budgets or are a ‘dark art’ of negotiation with civil servants and government officials. Ideally, it would be the future savings that pay for evidenced early intervention programmes, through some form of investment mechanism.

4.5 Conclusion

Once objectives have been agreed, cost-effectiveness should be one of the most important factors influencing spending and policy decisions. We find that the decisions are overly influenced by political and personal factors, in part because the methodology behind option appraisal is inconsistently applied.

This report makes a number of recommendations to improve decision-making. The process begins with clear objectives, but a consistent framework to evaluate policy will help to better inform decisions. Proper scrutiny and accountability over these decisions is required; later in this report we recommend setting up an independent body to review the evidence used to inform decisions and to ensure policy is clear in its aims and realistic in its expectations.

Outcome-based objectives combined with a common framework to assess policy, could help to open up greater competition between the public, private and voluntary sectors. The best provider(s) would be selected through independent scrutiny over the evidence in their productivity case and held to account over their ability to deliver outcomes cost-effectively.

CHAPTER FIVE

Delivery and Evaluation

5.1 Introduction: Improve delivery and evaluation

Decisions, once made, need to be implemented effectively and evaluated regularly to ensure first that they are delivering the outcomes expected of them and secondly to identify where public services can be improved. It is essential that government spending is evaluated and monitored closely to ensure that public money is being spent effectively. It is all the more important to have strong post-implementation analysis in cases where the initial decision-making process is weak.

We find that the implementation of programmes is inconsistent, with insufficient focus on outcomes and patchy delivery. The monitoring of programmes is weak, limiting the ability to improve future delivery and the governance over policy decisions is restricted.

CHAPTER OVERVIEW

- Departments have poor delivery capability and limited accountability.
- The delivery of public services is inconsistently managed, monitored and executed.
- Internal departmental monitoring and evaluation are not effective.
- The NAO is focused on monitoring the implementation of policy, not policy effectiveness.

CHAPTER RECOMMENDATIONS

- Improve delivery capability and accountability to focus on outcomes.
- Improve the quality of management.
- Improve internal monitoring and evaluation.
- Strengthen the external monitoring remit of NAO.

5.2 Current approach

The implementation of programmes is carried out by departments and local authorities, involving both managers and practitioners. The public sector also commissions the private and voluntary sector to help in the delivery of public services.

The objectives and evaluation criteria are set by the budget holders. They vary in their capabilities in planning and evaluation from department to department, region to region and across all levels of government.

The Office of Government Commerce was setup to improve the execution and project management of programmes. The Centre for the Measurement of Government Activity was set up to monitor the productivity of the Public Sector in the UK.

THE OFFICE OF GOVERNMENT COMMERCE (OGC)

The Office of Government Commerce (OGC) is an independent office of HM Treasury, established to help Government deliver best value from its spending. Their activities focus on the delivery of value for money from third party spend and the delivery of projects to time, quality and cost, realising the benefits of policy.

The OGC is focused on improving the efficiency of government spending by, for example, reducing procurement costs and supporting the implementation of policy. Though this is clearly an important function and source of value, their remit does not extend to improving the effectiveness of expenditure. They are limited in supporting departments and local government after policy decisions have been made.

UK CEMGA

The UK Centre for the Measurement of Government Activity (UKCeMGA) is the main body concerned with measuring productivity. One of its key objectives is 'publishing a regular series of authoritative articles describing the output and productivity performance of the main public services'.¹

UK CeMGA is a division of the Office for National Statistics and the leading authority in the UK when it comes to public sector productivity. It produces regular reports focused on the productivity of Justice, Education, Children, Social Care and Health, among other areas. It collates significant amounts of information in a robust and defined manner, on the inputs and outputs (quality and quantity) across these sectors.² It has also produced guidance on 'how' to measure productivity.

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- 1 UK CeMGA also lead a major research programme, Measuring Outcomes for Public Service Users (MOPSU). It consists of three main workstreams.
 - More efficient and effective commissioning and procurement of services, placing the issues of quality and value for money at the heart of the decision-making process
 - Encouraging the use of 'outcomes' measures to assess the impact of services on their users, across the spectrum of providers
 - Examining the extent to which the third sector is involved in public service delivery and helping to alleviate barriers to entry to third sector organisations

The second workstream is of particular interest; UK CeMGA attempt to define an outcome measure, the Adult Social Care Outcomes Toolkit (ASCOT). The aim is for resources in Adult Social Care to be allocated according to the ASCOT outcomes achieved per pound spent, just the type of measure we argue for in this paper. Adult social care is currently measured using a cost weighted activity index. Unfortunately, as we discuss later in a later chapter, measuring activity is not the same as measuring outcomes and fails to take into account the intensity of need for different clients or indeed the quality of care provided.
 - 2 Recent major reports include ones on Healthcare Productivity (Mar 2010), Education productivity (June 2009) and Total Public Sector productivity (June 2009).

UK CeMGA's work on defining methodologies is integral to ensuring a growing understanding of how to measure effectiveness. There is currently little or no departmental work on high-level productivity in Government and the work of the UK CeMGA should encourage others, including departments, to undertake this work. However, outside organisations such as the LSE Public Policy Group do already follow the recommendations of the UK CeMGA in assessing productivity.

UK CeMGA evaluations are backward-looking, focused on reviewing spending decisions that have already been made. UK CeMGA's reports tend to get significant attention from the press. For example, a recent report (March 2010) was on healthcare productivity, and most major news organisations ran with the story of "UK healthcare productivity declines". The main metrics used were:

- The quantity of Hospital and Community Health Services, which drove two-thirds of the total change in outputs.
- The volume of drugs prescribed by GPs, which drove one-sixth of the increase in outputs.
- The quantity of Family Health Services, which drove one-sixth of the increase in outputs.

UK CeMGA will be able to fully appreciate outcome-based government by understanding and including the link between outputs and outcomes, and ultimately the value of outcomes in their evaluations.

5.3 Weaknesses of the current system

Effective evaluation and monitoring enables government to learn the lessons of past service delivery and improve performance. However, departments fail to systematically evaluate and improve the delivery of their core services, while no external body compares the effectiveness of competing policy options. Where this does take place, a lack of consequences for poor performance entrenches poor delivery capability.

5.3.1 POOR DELIVERY CAPABILITY

In Whitehall, departments appear to lack the capability to make decisions effectively; they also lack the capability to focus on the delivery of outcomes instead of outputs.

Departmental capability reviews found that delivery was the weakest link in departmental performance, with departments scoring less than two out of four in delivery capability. Almost all departments had 'significant weaknesses' in managing staff and processes to meet future challenges. NAO reports support the view that departments are poor at executing decisions.

In the first Capability Reviews, nine departments were classified as needing 'urgent development' of financial delivery capabilities, with one – the Home Office – receiving a red assessment of 'serious concern' that required intervention to address weaknesses and led to a Reform Agreement between the Cabinet and the Department.³

³ Civil Service, Capability Review of the Home Office, last accessed via http://www.civilservice.gov.uk/Assets/Capability_Review_HO_tcm6-1065.pdf, 19 January 2011

“Departments have struggled to develop reliable metrics that would indicate their progress from improved capability to improved outcomes.”

Assessment of the Capability Review Programme, NAO, 2009

“Neither children’s centres nor local authorities have good information on what individual children’s centre services should cost, leading to a risk that funds are not being deployed cost-effectively.”⁷

PAC

Public Account Committee reports often indicate the absence of mechanisms that link performance with spending. For instance, ‘the Home Office has only limited mechanisms available to it to hold police forces and police authorities to account for the £5 billion funding it provides for policing, its largest single area of activity’.⁴

Two-thirds of the 170 capability assessments in the first-round of the Capability Reviews (10 elements were assessed in each of the 17 departments) rated a department less than ‘well placed’ – which is particularly striking considering that to obtain a ‘strong progress’ rating, departments need only show half their indicators have some improvement.

Progress against delivery capability is concerning: ‘two-thirds of departments (12) have put rewards and sanctions in place to motivate senior staff to act on their Capability Reviews. However, a quarter of departments (four) are dissatisfied with progress they are making in changing their organisational culture’.⁵

5.3.2 INCONSISTENT MANAGEMENT OF THE DELIVERY OF PUBLIC SERVICES

Cost-effective decisions have to be executed consistently and as planned for the public to have confidence that the decision was the right one. Clearly, there is little point

making sound policy decisions only to see their value undermined by costly, delayed or incomplete execution. To give just one example: in order to address concerns over police time being wasted on paperwork, money was released to pay for mobile data devices for police officers. Upon evaluation, there was little appreciation of the need to embed use of the devices into the culture of the police force, leading to limited take-up by officers, with some forces issuing none at all.

Our analysis of reports from the NAO and PAC reveals a set of shortcomings that frequently appear to hamper policy implementation. For example, The NAO reports that the NHS systematically underestimates the budget required to implement programmes. The PAC found that 36 out of 59 completed road building schemes cost 40 per cent more than originally estimated⁶ (see chapter 1 for further examples of similar failings in implementation).

4 PAC, *Financial Management in the Home Office*, 46th Report of 2008/09 session, London: PAC, July 2009, p6

5 NAO, *Assessment of the Capability Review Programme*, London: NAO, 2009

6 PAC, *Estimating and monitoring the costs of building roads in England*, London: PAC, October 2007

7 PAC, *Sure Start Children’s Centres, thirty-eighth Report of Session 2006-07*, London: The Stationery Office, 2007 pp.5-7

It is also difficult to assess a programme's true value when it is poorly or inconsistently executed. A well specified programme will be clear about how it should be executed in order to have maximum effect. At the same time, it should allow for some flexibility: services tailored to the individual are more likely to achieve outcomes. However, we find that a lack of guidance and risk aversion leads to services being over-specified, shifting resources towards following processes rather than delivering outcomes. Ideally, decision-makers at the delivery level should be well-informed about what works (the evidence) and how to execute it with fidelity. In interviews with academics, we were told that the developers of effective programmes were reluctant to expand their programmes into the UK because of concerns that they would not be rolled out with sufficient fidelity to the planned programme to ensure that the performance in achieving outcomes would be maintained.

The Capability Reviews' emphasis on internal operations fails to address departments' capabilities in managing external organisations – a large fraction of departmental spending. While commissioning is ostensibly on the basis of value for money, we were told that procurement teams often lacked the skills or the resources to monitor value for money effectively. The private and voluntary sectors take their lead from commissioners in how they report and monitor outcomes, and they have been restricted in their freedom to pursue outcomes effectively.

Those involved in commissioning noted that contracts tended to be longer term and highly regulated, dampening competitive pressures. They also noted that, where data was available, it was rarely used to benchmark or improve performance.

Local authorities face a similar lack of appropriate management, as Central Government has projected complex reporting lines, targets, statutory requirements and ring-fenced funding onto them. Public servants are left very little room for effective decision-making at local level, limiting the ability of local government to deliver outcomes. Despite this centralised approach, flagship programmes such as SureStart have suffered from inconsistency in local implementation, and as a result benchmarking their effectiveness across the country has proven very difficult.

“The suggestion is that Total Place will solve problems, and local authorities will do things better. However, this assumes that local leaders are less structure-bound and foolish, when there is no evidence to suggest that this is the case.”

Central government civil servant

5.3.3 INTERNAL ASSESSMENT IS INEFFECTIVE

The difficulty in measuring costs and impacts means that the social value of ongoing expenditure (which constitutes the bulk of public spending) is rarely measured in any robust and meaningful manner. We struggled to find examples of departments referring back to their original business case to see whether programmes were implemented successfully.

We asked a number of civil servants if they had ever seen an initiative stopped, with funding cancelled because of a lack of evidence. The only examples given were immediately after the general election, and much more a result of a change in political influence than policy makers using the evidence.

The Value for Money teams within certain departments have demonstrated an ability to focus on improving operational effectiveness in delivering outcomes. However, the majority of this resource within government is focused on improving the efficiency of delivery through, for example, better procurement. Their ability to inform policy decisions is often limited, and subordinate to political imperatives.

The bulk of public spending is on existing programmes not new programmes, and these are rarely evaluated in any systematic or meaningful manner. Once a programme is approved and has been running for a couple of years it becomes part of ‘core spending’. It is rarely evaluated, and the results of

evaluation where it does happen are rarely applied – even if in many cases the social value for money of these programmes drops significantly over time. Only through regular evaluation of these programmes can we stop spending on programmes that are no longer delivering, and release resources for new and more effective programmes.

The Comprehensive Spending Review evaluates current spending on a regular basis but we find this is primarily a political exercise with a lack of rigour and challenge around costs, productivity and valuation. The process purports to use zero-based budgets, but this is at lower levels of spend; however, the Spending Reviews are fundamentally top-down and driven by negotiations between department ministers and the Treasury.

“A 2007 OECD survey found that when performance targets are not met, programmes are almost never eliminated, budgets and pay structures are not affected, and the only impact is a high chance of closer monitoring in the future.”⁸

Budget Practices and Performance Surveys, OECD, 2007, Q.84

5.3.4 THE NAO IS NOT SETUP TO MONITOR POLICY EFFECTIVENESS

This places an important burden on the external bodies that scrutinise public spending, primarily the NAO and the PAC. We find that they are restricted in scope: their remits are to assess how spending decisions are carried out, rather than to question the decisions themselves. The NAO and PAC do review some on-going programmes but these tend to be on an efficiency rather than effectiveness basis and are only partially independent.

If its remit were expanded, the NAO would likely lack the resources to carry out SROI evaluations effectively. Where it has attempted to evaluate value for money, we feel that its reports seem to be inconsistent in the evaluation of social value and public sector savings. There is also no process to ensure that recommendations, once accepted, are implemented effectively by departments.

In the absence of effective evaluation, unproductive spending will continue to be justified on weak grounds and opportunities to improve both policy and service delivery will be missed. The Government Accountability Office (GAO) and the WSIPP in the US have combined technical capability with institutional integrity to improve effectiveness and influence policy. Without this combination of capability and credibility, policy will continue to be unduly influenced by ministerial initiatives and policymakers' predictions.

5.4 Recommendations

Delivery must be geared towards achieving outcomes, and we must learn from the lessons of the past to improve both policy and execution. There have to be mechanisms in place to measure, monitor and hold departments to account for their performance.

1. **Improve delivery capability and accountability to focus on outcomes.** Government should be clear and precise in what it wants. Departmental targets for programmes need to be geared toward maximising the value of achieved outcomes. This will require clearly defined, measurable and valued outcomes, with indicators that are linked to top level outcomes and are reliably and regularly measured. This should encourage departments to achieve government outcomes, rather than departmental outputs. Departments should be rewarded for the successful delivery of programmes and be held accountable where expected outcomes are not achieved. They should be encouraged to work together to achieve outcomes, and split funding based on their relative contributions. Decision-makers must allow for the appropriate use of professional discretion when defining how well-informed and accountable public servants go about achieving these outcomes.
2. **Improve the quality of management.** Departments need to be guided by the 'productivity' or business case when implementing programmes. The business case should set its own targets and timelines for achieving outcomes, as well as define how key indicators and metrics will be monitored. Delivery organisations must be aware of the evidence, and execute programmes with fidelity. Changes to implementation need to be justified in the context of both improving outcomes and supporting programme evaluation. The commissioning process needs to allow for the effective management of private and voluntary sector providers; they should deliver to a minimum standard and be evaluated against the cost-effective delivery of outcomes.
3. **Improve internal monitoring and evaluation.** Government needs to develop much more consistent and systematic monitoring and evaluation of programme delivery to allow it to stop what is not working well and to provide the insights on what the actual costs and outcomes of different

activities are. We need more openness and clarity about costs, implementation progress and the outcomes that were achieved compared to original expectations. This increasing transparency is a continuation of current trends, and will help to inform policy and frame the debate around what works.

Departments need to be evaluated against their own agreed targets. The implementation of programmes needs to be monitored against the business case that originally led to funding approval. Evaluations of resulting outcomes need to be peer reviewed, and used to build up a body of knowledge so as to improve delivery effectiveness.

4. **Strengthen the external monitoring remit of NAO.** The cost-effectiveness of core spending and programme spending by departments needs to be better understood and made more transparent to influence future resource allocation. The ONS subsidiary the Centre for the Measurement of Government Activity needs to break down productivity estimates to help understand the true productivity of different departmental activity. The NAO needs the resources, remit and independence to ensure it is capable of providing effective oversight over the efficiency and effectiveness of delivery.

5.5 Conclusion

For decision-making to be a successful tool for improving the effectiveness of government, we need confidence in our ability to execute decisions efficiently and improve delivery capability over time.

The departmental capability reviews identify delivery capability as a weakness. This is supported in our review of NAO reports by an inability to deliver to budget or meet agreed targets. The root cause of these problems may stem in part from other elements of this report – unclear objectives (chapter 2), or weak institutions (chapter 6). However, the core issues of delivery will need to be addressed for better decisions to lead to better outcomes.

Improving accountability through transparency and greater external scrutiny is important not only for the quality of delivery in any given instance, but to ensure that delivery challenges are identified and overcome. An honest evaluation of policy execution helps to identify how it can be improved, and to determine whether a failure to deliver planned outcomes is a result of poor policy, or poor execution.

CHAPTER SIX

Institutions and Capabilities

6.1 Introduction: Strengthen institutions, culture and capabilities

It is one thing to identify the manifestation of weak decision-making in government, but it is also necessary to understand what underlies these observations. Institutions must have the capabilities, culture and authority to ensure sustained quality of decision-making.

Though it may sound odd, the lack of market signals makes the need for robust financial and analytical skills and external challenge even greater in the public sector than in the commercial world.

Our research suggests that existing institutions are not structured to govern the decision-making process effectively. Over and above the criticisms we have made across all levels of government of the expenditure and resource allocation process, there are specific problems at a number of levels of decision-making.

CHAPTER OVERVIEW

- Departmental capabilities in finance, monitoring and analysis need to be improved.
- Whitehall culture does not adequately support challenge.
- Interactions between departments and the Treasury do not provide the right checks and balances.

CHAPTER RECOMMENDATIONS

- Build analytical and financial capabilities within departments.
- Develop a more open and challenging culture.
- Set up an independent body to scrutinise and strengthen decision-making.

6.2 How things work today

Spending decisions are made at all levels of government by ministers, civil servants, and public sector managers. Delivery staff and practitioners have a smaller role to play in spending decisions, but have much more power over the implementation of policy. Insofar as the Treasury is independent from spending departments, it can be objective in the resource allocation process. The two main UK bodies that have a role in reviewing government spending and its outputs (ostensibly from a value for money perspective) are the NAO and the PAC.

NATIONAL AUDIT OFFICE (NAO)

The National Audit Office, led by the Comptroller and Auditor General, works on behalf of Parliament to hold Government to account for the use of public money and to help public services improve performance.

The role of the NAO is two-fold:

- Audit the accounts of all government departments and agencies as well as a wide range of other public bodies.
- Report to Parliament on the economy, efficiency and effectiveness with which these bodies have used public money.

The organisation audited over 460 accounts in 2007/8, and provided 17 Select Committees with support in addition to working for the PAC. The office also deals with a wide range of enquiries from Members of Parliament, which on occasion may lead to a full value for money report.

The NAO has published 60 major reports to Parliament on value for money. Reports range from examining the entire operation of the criminal justice system to the major procurement projects of the Ministry of Defence, and from improving the commercial skills for government projects to improving contracting for highways maintenance.

NAO reports use a broad brush definition of 'value for money' that includes a qualitative as well as financial analysis of costs and benefits in order to give a more comprehensive assessment of cost-effectiveness.

Report drafts go through a 'clearance' process, where they are shared with the department(s) and all facts are agreed between departments and the NAO. This gives the PAC a mutually agreed report on which to base its later hearing.

THE PUBLIC ACCOUNTS COMMITTEE (PAC)

The PAC is central to the role of serving Parliament. It has 16 members and is always chaired by a member of the Opposition. The Committee is charged with examining the accounts of bodies that have received funds from Parliament. In practice this means holding sessions to take evidence on approximately 50 value for money (VFM) examinations and other reports produced by the NAO each year.

The PAC then issues its own report. By convention, the Government must reply to the Committee's recommendations within two months. The Government and the PAC both state that the PAC's recommendations are useful and acted upon.

Impact of the PAC

In October 2007 the Chairman of the PAC highlighted the positive response of the Government to recommendations made in recent reports from the Committee:

- The Child Support Agency was taking steps to make better use of the methods it uses to calculate and collect maintenance payments.
- Work was being planned by the Home Office to support victims and witnesses of anti-social behaviour, including advice on providing helplines in support of a 24-hour service, and a national support network.
- The Ministry of Defence had introduced a range of actions to increase recruitment and retention, including the new One Army Recruiting change programme to provide a more efficient and effective recruiting process across the Regular and Territorial Army.
- The Department for Culture, Media and Sport was addressing key risks to delivering a successful Olympic and Paralympic Games in 2012.
- HM Revenue & Customs was taking steps to reduce IT running costs and had set more rigorous targets for the delivery of IT projects by its suppliers.
- The Office of Government Commerce had launched a new programme, with Permanent Secretary oversight, to improve the value for money of the government's spending on external consultants.
- The Department for Business, Enterprise and Regulatory Reform was planning to produce frequent estimates of the cost of British Energy's liabilities.

This assertion is also supported by external research; the LSE Public Policy group found that 'PAC recommendations tend to have an over 90 per cent acceptance rate by government departments' and that 'in the 2006-07 parliamentary session, 63 PAC reports were discussed in the House of Commons'.¹

6.3 Weaknesses in the current system

There are a number of weaknesses in the current system that mean high-quality decision-making is less established than it could be.

6.3.1 DEPARTMENTAL CAPABILITIES NEED TO BE IMPROVED

One of the most important capability gaps that we have identified is the inconsistent level of analysis and financial skills within departments.

In many departments such skills exist already, but they are rarely fully exploited. In order to be able to truly establish social return on investment and relate productivity to the value of outcomes, it is essential that each department has strong capabilities in these areas. It is not just that many departments are big and unwieldy; in many cases they also have the wrong mix of skills (at many levels). The management of analysis tends to be procedural, with problem-solving leadership among

“NAO qualifies accounts of five government bodies”²

Public Finance Magazine

1 The National Audit Office, The Public Accounts Committee and the Risk Landscape in UK Public Policy, Oct 2009

2 *Public Finance Magazine*, p.1 headline, 28 July 2010

management the exception rather than the norm. The quality standards behind the analysis are more often than not determined from the bottom up, rather than the top down, leading to a lack of challenge and scrutiny.

THE CAPABILITY REVIEW'S COMMENTS ON DEPARTMENTAL CAPABILITIES IN FINANCIAL MANAGEMENT (2006 – 2008)³

On the Department for Education and Skills:

'A lack of contact between finance directors in NDPBs and the Department, combined with a lack of financial management expertise in DfES, reduces assessment of value for money and effective scrutiny of NDPB finances, prioritisation of resources and delivery'.

On the Department for Work and Pensions:

'The Department does not yet have sufficiently robust management information about unit costs, or a well-sourced understanding of value for money upon which to base decisions. However, there are initiatives underway – including training in finance awareness – to address this'.

On the Department for Communities and Local Government:

'More ambitious and urgent plans are required to strengthen the Department's analytical function and help policy staff make full use of evidence and data in policy making and delivery'.

On the Home Office:

'The Home Office now needs to address the challenges of embedding financial capability throughout the organisation, and of ensuring that it has the ability to be flexible in matching resources to priorities'.

Updates to the capability reviews recognised that these were improving and progress had been made, but there was still a need to embed financial capability further. Those departments that had shown the most improvement had:

- Emphasised training, particularly professional qualifications.
- Brought in external hires at all levels, particularly in the most senior positions.
- Had a strong internal budget allocation process in place, linking budgets to departmental strategic priorities.

Though detailed financial information appears to be available, a number of projects attempting to benchmark cost complained that there was a general lack of communication between the finance and operational delivery teams. Operational managers interested in benchmarking simply did not know who to ask or where to get the required information.

³ The Civil Service Capability Reviews: accessed via <http://www.civilservice.gov.uk/about/improving/capability/reports.aspx#>

Civil servants often commented on the poor communication between policy and analyst teams, with economists and analysts not involved in policy making until late in the process, and focusing their efforts on evaluating ideas already developed by the policy teams. If evidence-based policy making is to be fully adopted, government needs to begin with the data, and develop policy based on robust evidence.

6.3.2 DEPARTMENTAL CULTURE DOES NOT ADEQUATELY SUPPORT CHALLENGE

The departmental capability reviews found that two-thirds of departments are having to tackle problems in their organisational culture, including insularity and the need for staff to be able to ‘speak up and challenge’. Junior policy makers are reluctant to propose ideas, partly because the departments are initiative-led and often, we were told, because ‘the junior civil servant is surprised to have been asked’.

Policy development should be informed by the evidence. However, the distinct career paths within public organisations for policy makers and analysts means that there is little cross-fertilisation between these two important groups of public servants. Project teams within central and local government rarely integrate economists from the start. Involved late on, economists tend to focus on evaluating the ideas that policy teams have developed, using data to identify problems, but not to solve problems or propose solutions.

Improving communication between policy makers and analysts is a recognised problem. It has been the focus of some attention, with internal training courses set up to try to address this problem and the Prime Minister’s Strategy Unit getting involved to improve cross-collaboration and communication, as well as the sharing of ideas from cross departmental and inter-departmental teams.

Tackling a culture of ‘policy-led evidence making’ is a real priority. While civil servants recognise the need to provide balanced advice according to the evidence – they accept that they have a responsibility to inform ministers objectively – we have noted that the pressure on decisions can be intensely political. This problem is compounded by some of the analytical weaknesses identified earlier. If strong evidence and clear insights are not provided early on by officials, then the political imperative will tend to dominate. In addition, the political rhetoric needs to shift from spending on outputs to effective spending that achieves social outcomes – again this needs to be supported by outcome-based evidence

“Often missing from policy announcements is a robust analysis of previous efforts. What did the policies achieve?... Which should be continued and which dropped? Yet imagine the headlines if this were to happen: “Millions of pounds wasted”, “Minister undermines predecessor”, “School policies in turmoil”. The need to evaluate interventions collides with the political imperative not to admit to mistakes.”⁴

Estelle Morris

⁴ The Guardian, *Sounding tough doesn’t solve problems*, 24 June 2008. Available via: <http://www.guardian.co.uk/education/2008/jun/24/schools.1419education>

from officials. Decision-makers need a suitable counter-balance to rhetoric, the ability to justify their decisions in the context of an independent assessment of the evidence.

6.3.3 INTERACTIONS BETWEEN DEPARTMENTS AND THE TREASURY ARE PROBLEMATIC

The Treasury has traditionally been the focal point for ensuring that public expenditure is allocated effectively across departments. A number of existing institutions also provide independent oversight into the activities of government, but they lack the remit to comment on how resources should be allocated, or to evaluate the spending decisions of ministers and civil servants in advance.

The Treasury's influence grew under the previous Government. It was criticised at the time for over-stepping its traditional limits, as it became the driving force behind a number of centrally-driven policy initiatives. Aside from taking its focus away from allocating resources effectively, civil servants complained that the Treasury (in developing its own policy agendas) had become heavy-handed and overly dependent on departmental staff – who themselves were not necessarily best placed to provide the Treasury with what they thought they needed.

This development contributed to an adversarial relationship between the Treasury and other government departments, limiting openness and transparency. Budgetary negotiations were characterised by a 'fight your corner' mentality on both the costs and the specifics of policy decisions. As a result, central government seemed to have lost the necessary objective and critical perspective with for reviewing resource allocation decisions.

For example, target-setting has been called a 'dance', with the end result described as 'a compromise that suits no one' by an ex-civil servant involved in the target-setting process. Though one would expect a degree of robust discussions between the Treasury and other departments when agreeing targets, the experiences described by those involved in resource allocation suggest that the process is broken, and far removed from the experience of most businesses. We feel there are two 'institutional drivers' behind this. The lack of valuation of outcomes discussed in chapter two means there is no ability, or desire, by the Treasury to trade-off or prioritise different outcomes and results. Secondly, as mentioned above, there is little or no connection between resource allocation and target-setting, which means that departments can often feel like targets are being forced upon them without the means to deliver them.

6.4 Recommendations

If the pursuit of outcomes is to be truly embedded in a government geared toward achieving cost-effectiveness, the capabilities, culture and authority of the institution have to change. Departments, and the civil servants within them, need the skills to carry out the analysis robustly, but more importantly

the cultures of the organisations have to become more open to scrutiny, internally and externally. The leadership should be guided by the evidence and align all levels of government to work together to achieve desired outcomes.

1. Build analytical, financial and monitoring capabilities within departments.

The ability to allocate funds and to spend effectively is dependent on financial and analytical skills, since it relies upon understanding cost-effectiveness. The lack of market signals makes the need for robust financial and analytical skills even greater in the public sector than in the commercial world.

The evidence suggests that improving and expanding finance capabilities should produce significant efficiencies. For example when DEFRA⁵ began to treat the analysis of its core spending decisions in the same way as programme spending, it was able to make significant savings and generate a budget surplus for use as a contingency fund.

In many departments such skills exist already, but they are rarely fully exploited. Increasing the role of analysts in the policy development process and mixing the analyst and policy streams should lead to more policy being based on the evidence. This requires a change in the management of analysts, an upgrading of their capabilities, and in some cases a redeployment of resources.

2. Develop a more open and challenging culture. The culture within Government has to focus on achieving cost-effective outcomes. It will require leadership to embed outcome-based government as part of the culture and values of organisations involved in the delivery of public services, and it will take time to build the skills and evidence required to have confidence in the numbers. Government should aim to achieve the early steps in this process as quickly as possible:

- Policy ideas should be encouraged at all levels and submitted with supporting analysis.
- Competing policy ideas should be evaluated on a consistent basis.
- A small proportion of government expenditure should be set aside for an Innovation Budget. This can be used to fund and nurture exceptional initiatives from the public, private and voluntary sector that lack the evidence to demonstrate effectiveness, but which nonetheless show promise.

If departments can improve their performance by focusing on cost-effectiveness, they will become champions for SROI within government. Without this culture shift, the evidence will continue to be led by the policy, rather than the other way around.

⁵ Cabinet Office, *Capability Reviews: An overview of progress and next steps*, London: COI, 2009, pp.27-29

3. **Set up an independent body to scrutinise and strengthen decision-making.** Departments need oversight in measuring and ensuring productivity. Both the decision-making process and the thinking underlying their analysis need to be scrutinised. The Treasury itself lacks the necessary independence from resource allocation or government spending to fill this role effectively. The NAO is backward-looking, focused on decisions that have already been made, and with the PAC they operate at a slower pace than that required for decision-makers in government. On the other hand, the success of the Office for Budget Responsibility (OBR) has shown how a small but focused independent body can hold government departments (including the Treasury) to account in managing and projecting the overall costs of government policy.

Hence, we recommend creating an independent body: the Office of Spending Effectiveness. It would be responsible for setting standards of decision-making on public spending programmes, ensuring the consistency of those standards and holding to account departments for delivery against agreed business cases. Its authority would come from establishing respect in the public domain as a respected independent voice.

An independent body commenting on resource allocation and effectiveness would add an analytical and empirical edge to what has become a process driven by political initiative, rather than evidence. The aim of this body would not be to criticise or unfairly judge the decisions of politicians or public servants, but instead to further policy makers' understanding of effectiveness.

THE OFFICE OF SPENDING EFFECTIVENESS (OSE)

The OSE would assess the cost-effectiveness of public policy on a forward looking basis and operate flexibly, supporting decisions at the speed that they need to be made in government. To enable it carry out this function it would need a different remit and skill set from existing institutions:

- Review and agree the departmental outcomes and indicators associated with core departmental objectives.
 - Develop a metric of the fiscal, economic and social value of improving each major outcome.
- Set the standards for departmental productivity measures:
 - Collate and disseminate knowledge on both the costs of initiatives and their effectiveness across government – in particular accounting consistently for cross-government effects.
 - Support the use of departmental expertise and research, and ensure a consistent methodology was used across departments.

- Assess business plans for spending programmes
 - Have control of and disseminate the Green Book process to advise and guide departments on the appropriate methodology for business plans.
 - Comment on the effectiveness of all major spending programmes and the budget allocations within and across departments.
- Set standards for the execution and monitoring of government programmes
 - Provide the NAO and PAC with reference points for their review mechanisms.
 - Use the business plans to hold departments to account for effective delivery.

The OSE would need to have world-class capabilities in finance, economics and social-science research/statistics. These need to be at a level of experience to be able to assess and challenge the work of departments. We recommend that this body does not usurp the analytical role of government departments. The scope of national government is too big to have an outside body conducting (or replicating) all its policy analysis.

Departments need to own and build their analytical capability and if anything the analytical and policy functions need to be brought closer together. However, the OSE could define the analysis that needs to be done, and the evidence required to justify spending decisions. It would still be necessary for departments to train their staff to build their skills and understanding, and provide the tools required to deliver social value and support effective decision-making. Guidance and scrutiny from the OSE would help to make sure this is effective.

Furthermore, it would not be the job of the OSE to set targets – for that is a political exercise. However, in carrying out its remit, it would increase the alignment between spending decisions and political targets.

The Office of Spending Effectiveness would have an impact on the remit of other government institutions:

- **The Office for National Statistics** would continue to be responsible for monitoring national indicators across government. It would need to work with the OSE to ensure that relevant indicators are measured.
- **The National Audit Office** would continue its role in assessing how well government policies were implemented. This would complement the OSE responsibility to scrutinise policy decisions ex-ante. Some of the skills of the NAO could be brought into the new body to support the analysis of spending effectiveness.
- **The Treasury** would focus on its core function of being a finance ministry. It should remain separate from departments and from the delivery of initiatives. It should focus on effective allocation of resources across departments, and agreeing their budgets. This might involve changing the size of the Treasury, and a transfer of some of its skills and resources into departments.

Without these changes, outcome-based government will remain isolated, applied only in pockets where both the skills and leadership exist – but not across government.

BEST PRACTICE GOVERNANCE: THE GOVERNMENT ACCOUNTABILITY OFFICE (GAO) IN THE US

*'The U.S. Government Accountability Office (GAO) is known as "the investigative arm of Congress" and "the congressional watchdog." GAO supports the Congress in meeting its constitutional responsibilities and helps improve the performance and accountability of the federal government for the benefit of the American people.'*⁶

The mission of the GAO involves the following:

- Auditing agency operations to determine whether funds are being spent efficiently and effectively.
- Investigating allegations of illegal and improper activities.
- Reporting on how well government programmes and policies are meeting their objectives.
- Performing policy analyses and outlining options for congressional consideration.
- Issuing legal decisions and opinions, such as bid protest rulings and reports on agency rules.⁷

The GAO has a non-partisan role in the US government. Its director, known as the Comptroller General (CG), is appointed by the President and approved by the Senate for a 15 year period. It is widely thought of as mostly independent from the constraints and concerns of the political process. Many see the long term tenure of its director as the direct cause of this positive effect.

The NAO and GAO largely do similar things; producing financial and performance audits to support the legislature, issuing recommendations, and working as advisors to other auditing bodies. However, the influence of the GAO is greater due to a wider remit and additional powers and resources. The GAO is considered more effective for the following reasons:

1. **It is bigger** – The GAO has 3,100 employees and a budget of almost \$500million, whereas the NAO has a staff of 900 and a budget under £100million. In terms of output, the GAO issues around 5 times more reports a year than NAO.
2. **It is more effective** – The NAO claims to save £9 pounds for every £1 invested. The GAO claims a return of \$80 to \$1⁸ (although the calculation of benefits accrued in implementation incorporates financial and non financial gains). The implementation of past recommendations is closely monitored; the GAO reported that 66 per cent of its recommendations were implemented in 2008.⁹
3. **It is more independent** – Congress mandates that the GAO explores particular strategic issues, but like the NAO, the office maintains a level of independence in initiating new projects. The Comptroller General has the authority to initiate evaluations on his own initiative – this is frequently exercised. Unlike the NAO, its reports do not require the previous approval of the relevant department before publication. Therefore, the GAO's tendency to engage in debates with the agencies contrasts to the NAO's more collaborative, but less independent approach.

6 Fiscal Year 2010 performance plan, <http://www.gao.gov/new.items/d09304sp.pdf>

7 GAO website <http://www.gao.gov/about/index.html>

8 GAO Performance report 2009, p.2, accessed via: <http://www.gao.gov/new.items/d08507sp.pdf>

9 Ibid, p.7

6.5 Conclusion

Effectiveness has to be embedded across government if we are to maximise social value. The required consistency in analytical skills and capabilities does not currently exist. The Government will need to tackle this in order for an outcome-based approach to be truly effective across all of the institutions of government.

A deeper problem is the culture of government. This does not focus sufficiently on cost-effectiveness, or independent challenge based on evidence. Institutional roles are not sufficiently well-defined and there is not enough collaboration and working together to solve the challenges of policy.

Cultural change requires a catalyst and can often take time. However the example of the OBR shows the impact that independent scrutiny can have on both capabilities and culture. The OBR has focused attention on the accuracy of departmental financial forecasts to support the spending review.

The proposed Office of Spending Effectiveness will scrutinise the evidence behind policy initiatives. This will improve accountability and increase departmental focus on cost-effectiveness, and the tone from the top will begin to have an impact on culture and capability across all levels of government.

CHAPTER SEVEN

Conclusion: Outcome-Based Government

Conclusion

Value for money within Government has often tended to focus on ‘efficiencies’ in delivering existing policy. Although this is important, we believe far more can be achieved by focusing on ‘effectiveness’ when developing policies.

The opportunity to improve the value for money from public spending is significant. KPMG estimated that if the public sector had matched private sector productivity growth over the last decade, the quantity and quality of outcomes currently delivered from public spending could have been delivered for £60 billion per annum less.

This is not a new problem; a lack of clear objectives, poor and inconsistent measurement and monitoring, and weak institutions all point to a historic inability to maximise social value. This indicates both wasted public money and a wasted opportunity to improve outcomes for society.

It is imperative in today’s climate of spending cuts that reduced public spending is not only cost-effective, but also focuses on the most valuable outcomes. The Government will need to decide the detail of how spending cuts will fall within different departments, and this means making choices and real trade-offs between different types of spending and outcomes. Having decided that cutting the deficit is its main priority, the government must ensure that cuts fall on those initiatives that deliver the least social value.

Spending cuts have to be implemented across government; within departments, local authorities and service partners, in the right way. The impact of cuts can be minimised: with clear objectives and proper guidance, cuts will tend to fall where they will have least impact. By gathering reliable measures of productivity, cuts will be focused in areas of unproductive and unjustifiable spend. And with effective governance, cuts will be made that avoid burdening future taxpayers with the ongoing and increasing costs of social breakdown.

The ability to make effective spending decisions requires a fundamental change in the way we view public spending. First, it means being clear about the outcomes that the Government wants to achieve and being consistent in

how those outcomes are valued based on their fiscal, economic and social impacts. The Government can begin by enhancing the Structural Reform Plans so as to state its objectives clearly, in terms of outcomes and measurable outcome-based indicators.

Government must also seek to understand systematically the link between the cost of the activities that they choose to fund and the impact of that activity on outcomes. It can increasingly measure productivity and focus cuts on programmes that fail to deliver outcomes, or are the least cost-effective. The evaluation process behind this has to be robust and consistent so that future decisions are continuously improved based on past analysis. It should encourage the testing of new approaches to deep-rooted problems; indeed, replicable ideas that are proven to work should spread further and faster under this approach as their value becomes clear. Over time, government can increase the effectiveness of public spending by rewarding those departments that use evidence effectively and build their knowledge base against what works.

Furthermore, the Government can and must be more open and transparent about the spending review process and how cuts will be implemented across departments. It should disclose its rationale for specific public sector cuts on the basis of value for money, showing that those cuts will have a minimal impact on outcomes. It could begin by making public the business case upon which past spending decisions were made, and reforming those that are failing to meet expectations.

This is a cultural and organisational challenge as much as a technical one. To do this will require an important shift across the civil service towards a culture that values transparency and accountability, and incentivises cost-effective delivery and cross-departmental working. All of this cannot happen overnight, but much can be achieved quickly – and it needs to, if we are to minimise the impact of public sector cuts on the quality of life in the UK. It requires a change to the way government operates, as well as some institutional changes.

A new OSE would demonstrate that the Government are serious about using evidence to inform cost-effective public spending, and set the tone for departments and local authorities. This is not about another layer of bureaucracy, but about addressing a gap in the understanding of cost-effectiveness and evidence when making major spending decisions. The OSE would work in tandem with the ONS and the NAO. The ONS should measure and monitor the indicators relating the government's most important objectives. The NAO should strengthen its role in monitoring the outcomes delivered by specific programmes, and their cost-effectiveness. The OSE would scrutinise departmental analysis and challenge evidence prior to spending decisions being made.

We know that improvement is possible; organisations such as the State of the USA show that it is possible to define clear outcomes that are linked to meaningful measures. The WSIPP are able to support independent, evidence-

based decisions that influence policy and increase the value delivered to society. The SROI network shows that this approach, if applied consistently, can help organisations measure and therefore objectively improve the true social value that they deliver to society.

Clear objectives that recognise the value that improved outcomes deliver to both the taxpayer and society will increase focus on the delivery of outcomes, and align Government and delivery partners behind the delivery of shared social value. We believe the government needs a clear and comprehensive list of the most important social outcomes it is trying to deliver: from reduction in crime, to people back into work, to improvements in travel time, to 'QALY' health outcomes. These might seem basic, but these are not in place systematically today.

By measuring productivity robustly we will be able to cut wasteful and unproductive public spending and reallocate resources to activity that improves, even transforms, lives. The aim is to inject a much higher level of focus and discipline into government departments. Departments will be able to generate 'social business cases' for specific initiatives which weigh up delivery cost against the value of the outcomes which will be delivered, and identify where improvement can be made upon evaluation. A consistent framework to assess policy and delivery should increase innovation; allowing individual initiatives supported by an evidence-backed social business case and enabling the public, voluntary and private sectors to compete effectively based on the ability to deliver outcomes, and improve delivery year on year.

The OBR, NICE and the NAO demonstrate that the UK government can establish effective governance measures in the area of fiscal management, spending on health interventions and to review the delivery of policy. The OSE would not be about creating a technocracy; additional scrutiny over decision-making simply aims to extend the principles of effective governance into spending and policy decisions. Ministers will quite rightly have the final say, but their decisions will be better equipped to incorporate the lessons of past policy, and be justified against objective evidence.

An outcome-based approach to government would produce dramatic benefits to individuals, communities and taxpayers alike. Importantly, it would begin the work of tackling preventable poverty and reversing social breakdown. We cannot afford the status quo. It is now time for the Government to seize this opportunity.

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